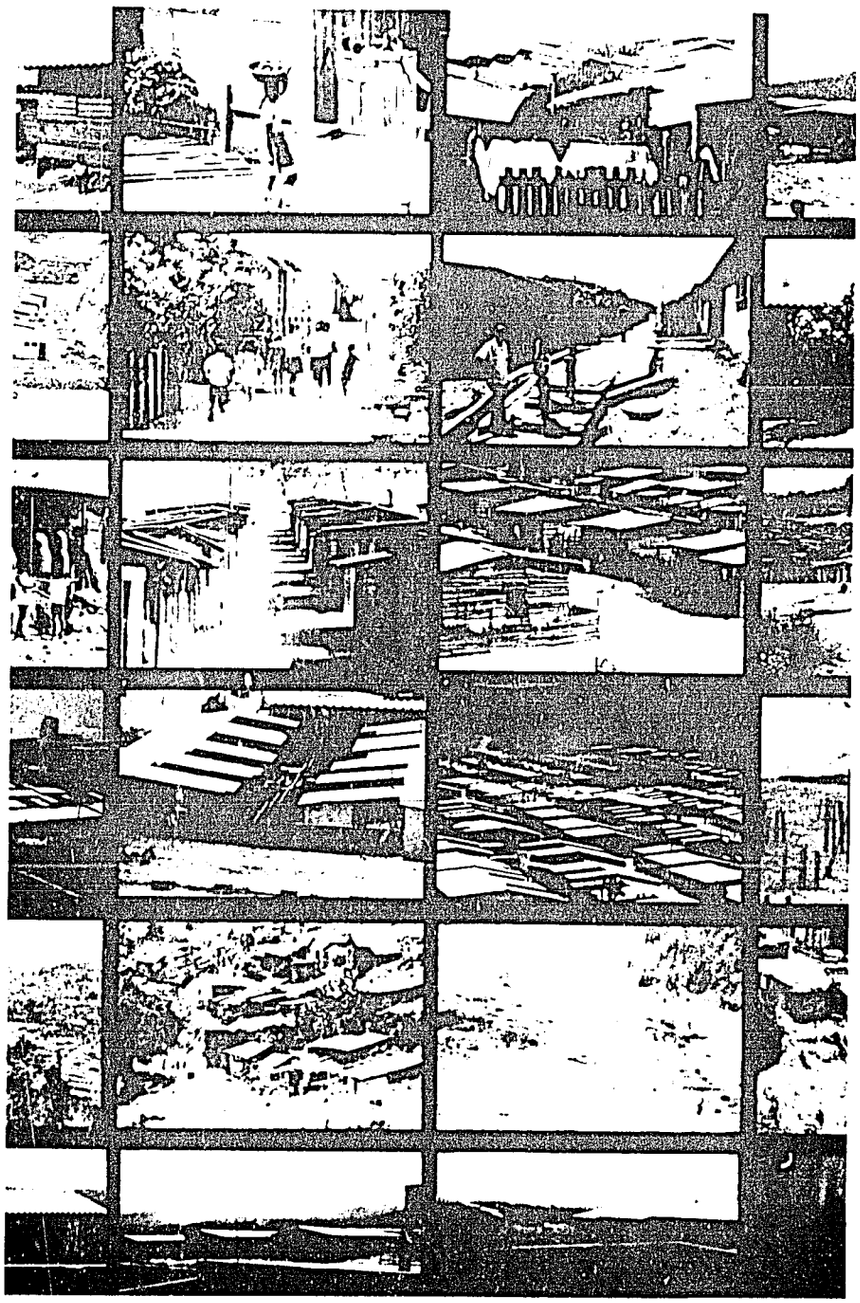
COOPERATIVE HOUSING

IDEAS & METHODS EXCHANGE NO. 52
204 COOPERATIVES



PREPARED FOR THE AGENCY FOR INTERNATIONAL DEVELOPMENT BY THE

OFFICE OF INTERNATIONAL AFFAIRS

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

COOPERATIVE HOUSING

BY J. ROBERT DODGE

A REVISION OF
COOPERATIVE HOUSING IN THE
UNITED STATES

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FOREWORD

This publication replaces Ideas and Methods Exchange No. 52, Cooperative Housing in the United States. Because the cooperative movement as an economic and social phenomena has grown and proliferated to such an extent that it has assumed world-wide importance and because of the interest in cooperative housing in developing countries, the subject has been explored in greater depth and from a different point of view than in the earlier publication. Ideas gleaned from experiences in both industrialized and developing countries have been included as a guide to those interested in undertaking cooperative housing programs.

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INTRODUCTION

Cooperation among individuals and family groups as a means of attaining common goals is as old as man and is in fact the basis of any organized society. However, the cooperative movement as it exists today had its beginning as late as December 21st, 1844, when twenty-eight poor mill workers opened a shop in Rochdale, England, stocked with a small amount of butter, flour, oatmeal, sugar and candles purchased, with funds pooled from their meager weekly savings. This undertaking of the "Rochdale Society of Equitable Pioneers", as the group was known, had as its objective the alleviation of their own miserable economic condition and that of others by lowering the cost of living through a cooperative venture based on sound business practices in which earned profits were rebated to customers in proportion to their purchases.

The code of cooperative principles developed by the "Society" that has come to be known as the "Rochdale System" proved so sound that within twelve years the group which started out with about ten dollars as capital was selling $100,000 worth of goods a year. Furthermore, the ideas and principles generated in Rochdale spread around the world, embracing practically every field of endeavour. These include manufacturing, marketing, and distribution of such things as electrical power, petroleum products, farm commodities, consumer goods, and building materials. It also has entered the fields of banking and credit, insurance and housing. The annual business of these various types of cooperatives now run into the hundreds of billions of dollars.

While cooperative housing represents only a small part of the cooperative movement and has been slower to develop in most countries than other forms of cooperatives, it has expanded dramatically since World War II. This is particularly true in Northern European countries and the United States. It is now widely accepted as an important technique for housing middle, low-middle and even some low-income families at reasonable cost. It also offers a means for improving the quality of community life through the provision of a variety of community services owned, operated or sponsored by the cooperative societies and their members.

I

COOPERATIVE PRINCIPLES AND PRACTICES

A cooperative is essentially a private business enterprise owned and controlled by its members and operated for their benefit rather than for investor profits.

Although cooperatives may take a variety of forms and while practices and methods of operation may differ, certain fundamental principles govern the operation of most cooperative organizations. These are the seven Rochdale principles referred to earlier which were established by the founders to guide the society. They consisted of the following:

1) Open membership to all who will cooperate in good faith; without restriction as to race, color or creed.

2) Each member shall have one vote and only one vote and there shall be no proxy voting.

3) Capital shall receive a limited and predetermined rate of interest.

4) Net savings shall be distributed to members on the basis of their patronage of the association's goods and services.

5) All trading shall be done on a cash basis at fair market rates.

6) Accounts shall be audited regularly and reports made so that members may discuss the association's affairs intelligently and act accordingly.

7) Frequent discussion meetings shall be held by the members in order to consider the current state and possible development of their association.

The original Rochdale principles are often modified to meet specific situations or types of undertakings, but not so as to violate the cooperative spirit. For example, the principles and procedures which are most often applied to housing cooperatives usually consist essentially of the original seven but may also include such practical guidelines as:

1) The establishment of adequate reserves to protect the operation and equity of members.

2) The option of cooperatives to repurchase homes of retiring members to eliminate speculation.

3) The provision of adequate community facilities and the encouragement of community activities and undertakings.

One characteristic of a cooperative which is sometimes misunderstood is that a cooperative is a genuinely voluntary, free-enterprise undertaking.

Although most countries have laws regulating the formation and operation of cooperatives to protect the members, when a cooperative is dominated by the state or by any individual or organization other than its own members it ceases to be a true cooperative.

Generally speaking a housing cooperative is a community owned and democratically controlled by its residents and operated for their benefit. Furthermore, the individual member's investment is his personal and private property.

II

TYPES OF HOUSING COOPERATIVES

The forms that housing cooperatives have taken in different countries have been influenced by indigenous customs, laws and social and economic factors. Hence they vary. However, those that follow the essential cooperative principles are considered as cooperatives in this publication regardless of their legal structure or form.

Housing cooperatives can generally be grouped under the following classifications:

1) *"Limited objective" cooperatives.* These are organized to perform certain specific services on behalf of the members. This often involves only acquiring and subdividing land with title to the lots given to the individual members.

In some cases the cooperative may go further and arrange for the installation of streets and utilities and even the design and construction of the dwellings. However once the members' objectives have been met the cooperative usually dissolves.

2) *"Mutual-ownership" cooperatives.* These are sometimes known as "single mortgage" cooperatives and are those in which the cooperative may perform all the services described under (1) but in addition retains title to the land, dwellings and facilities. In this case the cooperative, which is mutually owned by the members, manages and maintains the property on behalf of the members after it has been completed.

In some cases a mutual ownership cooperative may be formed to acquire a housing project already in existence. For example, in the United States, the Greenbelt Cooperative was formed to acquire the planned community of Greenbelt, Maryland, which had previously been built and owned by the U.S. Government.

3) *"Multiple-mortgage" cooperatives.* These are a type found in some Latin American countries and in Israel. They are a form of condominium or "horizontal property", in which the members hold legal title to their individual apartments or dwelling units but with all common property and facilities owned in condominium by the owners of the dwelling units.

This type of community qualifies as a cooperative only if it conforms to basic cooperative principles including open housing, non-profit operation, safeguards against speculation, the limitation of one dwelling to a member, and democratic control of the project with each member having only one vote.

4) *"Tenant"* cooperatives. These are found in Europe particularly in France and some Eastern European countries, but are less well known elsewhere. In this type a non-profit cooperative builds dwellings and leases them to its members. The occupants do not have equity in, or own any share in the property but do have a voice in its day-to-day management.

In addition to the cooperatives just described, there are also cooperatives which are developed and managed by builders or real estate interests for persona' profit. While these projects may have many of the outward trappings of a true cooperative they usually violate the basic cooperative principles in one or more ways.

Regardless of the type of cooperative, its organization ordinarily takes one of two forms: "limited membership" cooperatives in which only those who live in a project or community are members; and "open membership" cooperatives, sometimes called "cooperative saving and building societies" which are open to all qualified individuals who wish to join. The members of the latter usually include those who are saving for a dwelling in projects yet to be built, as well as those who occupy completed projects. This form of cooperative is described in more detail in Chapter IV, "How Housing Cooperatives are Organized."

Mutual-Ownership or Single-Mortgage Cooperatives.

Mutual-ownership or single-mortgage cooperatives with either limited or open membership are probably the most numerous of the various types of housing cooperatives. It is the form most of the cooperatives have taken in the United States and the Scandanavian countries and its use is spreading in Latin America. For this reason it is singled out here for more detailed discussion.

In this form of cooperative, the legal title to the entire property including the dwelling, land and facilities is held by the cooperative society, or in some countries by a cooperative corporation. However, the members are the actual owners by virtue of the fact that they own all the shares in the cooperative. Each member's shares are equal to the value of his particular dwelling unit and his proportionate share of the common property. Regardless of the size of his investment he is entitled to only one vote. The members occupy their dwelling unit under what is commonly known as an "occupancy agreement". In the United States this is usually in the form of a "lease" for a term of years which is automatically renewable.

The cooperative membership and the right of occupancy is transferable by the member but only to persons who are approved by the Board of Directors. In most cooperatives the transfer of membership can be made to another individual only after first offering to sell it to the cooperative, and if the cooperative does not exercise its option to repurchase. On the death of a member, the

property transfers to his heirs. In addition, the cooperative by-laws usually provide that one of the heirs is automatically entitled to become a member of the cooperative.

In this type of cooperative there is a single mortgage (sometimes called a "blanket or global mortgage") on the entire project including the dwellings, common areas and facilities. The mortgage is an obligation of the cooperative and not of the members individually. Moreover, a member is limited in liability up to his investment which is legally not unlike owning shares in a corporation or participating as a limited partner in a partnership.

The cooperative meets its obligations by collecting "carrying charges" (as distinguished from rent) from its members to pay the debt service on its mortgage and the budgeted costs of managing and operating the project. These include real estate taxes, insurance, utilities, maintenance costs and reserves for repairs and replacement of equipment or elements of the building. In some cases reserves are also established for future community improvements.

Well managed cooperatives also accumulate reserves to guard against losses from vacancies or delinquencies and to meet other emergencies.

The relationship of members to the cooperative, their rights and obligations, the authority and method of operation of the cooperative and its regulation are spelled out in a set of legal documents. The terms used to describe these documents in different countries may vary but they cover essentially the same ground.

The *Subscription Agreement* or Membership Agreement is the document in which an individual applies for membership in the cooperative; the *Occupancy Agreement* describes the terms and conditions under which a member occupies one of the dwelling units; the *Charter* or *Articles of Incorporation* and the *By-Laws* set forth the authority and rules under which the cooperative operates.

Housing cooperatives are controlled by the members through an elected Board of Directors. This Board is responsible to the members for the management of the cooperative's property in accordance with the By-Laws and the annual budget approved by the membership.

In most housing cooperatives, members do a great deal of voluntary work. Many of the cooperative activities are performed or directed by voluntary committees. These may include committees on financial matters, social and recreational activities, maintenance of buildings and grounds, membership, etc. In Latin America most cooperatives also have a "Vigilancia" or "watch-dog" committee which keeps an eye on all operations.

III

ADVANTAGES AND DISADVANTAGES

OF COOPERATIVE HOUSING

Housing cooperatives have certain advantages over conventional housing projects, whether rental or sales. This is particularly true of those for low and low-middle income families where even small savings are important. However, to some people they may present disadvantages.

The advantages are economic, technical and social. Whether or not they are realized depends of course on the effectiveness of the organizers, the interest and dedication of the members and the competence of the management.

ADVANTAGES OF HOUSING COOPERATIVES

Financial Advantages (Cost Savings)

1) Cooperatives encourage people to save and thus generate capital which can be channeled into the financing of housing.

2) Cooperatives can reduce housing costs through the group purchase of land, professional services, building materials, equipment and construction.

While large scale speculative builders or developers can effect the same economies, they seldom build for those of low or modest income in developing countries. When they do, they seldom pass all of the savings on to the buyer. Instead they tend to charge what the traffic will bear.

3) Cooperative members benefit from non-profit operations because savings are possible at every step in the development of projects. The profit taken by the landlord in the case of rental housing or by the entrepreneur in sales housing can be substantially reduced.

4) Non-profit cooperatives in many countries benefit from tax advantages. They may be taxed at a lower rate or not at all. Even when taxed, that part of the monthly payment attributable to real estate taxes and interest on the mortgage are often deductible from income taxes. In some Latin American countries cooperatives are also exempt from transfer taxes on real estate.

5) Mutual-ownership cooperatives enjoy special advantages in many countries. These include the following:

a) Closing costs, including property surveys, title examinations and the assorted notary or legal fees which are substantial in many developing countries can be reduced since only one piece or property is being transferred, instead of perhaps one hundred separate housing units. Therefore, only one set of documents rather than one hundred is involved.

b) Closing costs may be further reduced in cases where the cooperative takes title to the land and then contracts for the construction of the dwellings. Closing costs in such cases are usually computed on the basis of unimproved land rather than on land and dwellings.

c) Resale costs in single mortgage cooperatives are low because most cooperatives maintain waiting lists of prospective purchasers and handle resales for nominal fees. In the United States this varies from twenty five to one hundred dollars on low and middle income housing in contrast to the real estate sales commissions of 6 percent of the sales price ($600 on a $10,000 house).

d) New members buying into cooperatives also save because the transaction involves only a transfer of shares in the cooperative rather than a transfer of real property. This avoids the high cost of title examinations, transfer taxes, refinancing fees and other charges associated with the sale of individual or condominium property.

7) Other savings are possible to members of housing cooperatives in the cost of facilities and services. For example, in some single mortgage cooperatives, savings have been made by arranging for "master metering" rather than individual metering of electrical and water services. Similarly savings are possible through arranging for group property, life and other forms of insurance and through the group purchase of furniture, equipment and other items.

8) It costs less to service a mortgage loan on a single mortgage cooperative because the collections of individual payments are made by the cooperative and turned over to the mortgage. This not only relieves him of the cost of collecting a large number of individual payments but of the attendant bookkeeping. Consequently, cooperative mortgages are attractive to many lenders.

Greater Financial Responsibility

The repayment records of occupants of conventional housing projects in many developing countries leaves much to be desired. In a well run single mortgage cooperative there is generally a feeling of collective responsibility for meeting the cooperatives obligations on time, and cooperatives exert social pressure on individuals who are careless about making their payments. Furthermore, as we have seen, cooperatives have reserves for delinquencies and vacancies. Therefore, it is possible to carry a member who is in temporary financial difficulties without jeopardizing his financial position or that of the cooperative. This helps to assure prompt repayment of the cooperative's obligations.

In the United States, the record of repayment for "presold management" cooperatives financed under the mortgage insurance program of the Federal Housing Administration (FHA) have been outstanding. Even in the program for low income families there have been no defaults. Housing cooperatives in Latin America have also had above average repayment records.

Safeguards Against Speculation

Cooperatives can assure that houses intended for low or low-middle income families are not used for speculation. This is particularly important in countries where housing is in short supply. Because title to the property is held by the cooperative there is little opportunity for a member, who has benefitted from the work of the sponsors and the other cooperative members and perhaps from favorable financing, to obtain a windfall by selling at a profit at the first opportunity.

Similarly cooperatives maintain control over rentals, thus eliminating the speculator who buys only with the object of renting the property for profit.

Good Maintenance

Maintenance is generally better in owner-occupied housing than in rental housing. Nevertheless, even in communities of owner-occupied housing or in condominiums there are always those who neglect their property or who rent it to those who do not maintain it. In the case of cooperatives, good maintenance is generally assured since the property is maintained by the cooperative and funds for maintenance, repair and replacement are built into the monthly payments. Individual home owners, especially those in the lower income brackets, rarely look ahead to the time when the roof of their house or the kitchen range will need replacing. When they deteriorate, owners are often without the necessary funds and either must borrow money at a high interest rate or delay replacement. On the other hand in a well run cooperative, when roofs, gutters, wiring or plumbing need repair or replacement, there is money available to do the job.

The concern of the cooperative and its owners extends beyond the individual houses and include all commonly owned property such as walks, playgrounds, community centers, etc., and cooperative members are not at the mercy of a landlord for maintenance. Instead, the membership determines what shall be done and when.

Good Planning

The advantages of "cluster planning" which offer savings in constructing streets and utilities and providing open spaces for community use are well known. However, this type of planning is feasible only when there are provisions for group ownership and maintenance of common areas. Cooperatives offer one means of providing the necessary mechanism although both condominium properties and "homes associations" offer the same advantage.

Social Advantages

Cooperatives are small communities rather than merely housing projects in which each family has a concern only for its own property. Members participate in all decisions affecting the operation of the community. This, plus the fact that there is a mutual interest on the part of the members in the community as a whole, tends to generate a healthy social climate.

Most cooperatives sponsor a variety of social and recreational activities including such things as day-care centers or nurseries, sports program for children, buying clubs, credit unions and other cooperative endeavors. Through these activities and the committees which are responsible for them, residents get to know one another and establish an identity with the community.

DISADVANTAGES OF HOUSING COOPERATIVES

Some disadvantages attributed to cooperative ownership are real, others are based on misunderstandings, or more often on dislike of the obligations inherent in cooperative membership.

Dangers From Foreclosure

An argument often advanced against the single mortgage cooperative is that should the cooperative fail to meet its obligations during a period of hard times, individuals, even though current in their payments would loose everything in the event of foreclosure. This is a valid fear and has happened. However, cooperatives now usually have safeguards in the form of reserves to carry them over periods during which some members may fall behind in their payments. In such cases the others are reasonably well protected except during a severe or prolonged depression. Furthermore, most mortgagees who have to foreclose are unlikely to evict those who are paying. They are more likely to replace those in default with others capable of paying and thus preserve both the cooperative and their own investment.

Another safeguard taken by most cooperatives is to avoid drawing their memberships from workers in only one or two industries. This protects the cooperative in the event of a strike or hard times in those industries.

It should also be repeated that members are not individually responsible for the debts of the cooperative or of other members.

Resale Problems

A second problem that sometimes presents itself in the case of a single mortgage cooperative is that as the unpaid balance of the mortgage declines the cash required of a new owner buying into the cooperative becomes progressively higher. This has made it difficult in some cases for members to dispose of their units in older cooperatives without helping to finance the down payment of a buyer. This is frequently done. In other cases, cooperatives repurchase the unit and extend credit from reserves or arrange for loans to the new purchaser through cooperative credit unions or cooperative savings and loan associations.

Lack of individual title is another objection to the single mortgage cooperative, particularly in Latin America. There is the feeling on the part of many individuals that they are not true owners unless they have a title document to their dwelling registered in their names.

In order to obtain acceptance of the cooperative (single mortgage) form of home ownership it is sometimes necessary to provide that title to the housing project remain in the cooperative only so long as the first mortgage is not paid in full. Such an arrangement "comports with the understanding of the Latin American homeowner that he does not really own his property as long as it is burdened by the lien of a mortgage. However, when the mortgage is paid, the by-laws of the cooperative and the occupancy agreement may provide that, if desired, the cooperative would convey individual legal title to the dwelling to the member. This arrangement will require a continuing cooperative or other organization to own and operate the common elements of the project."[1]

It is because of the concern over individual titles that cooperatives in some Latin American countries are in fact condominiums with individual titles to the dwelling units.

Restrictions on Resales and Rentals

Another aspect of cooperative ownership is the provision in most cooperative by-laws against speculation on the part of the members in reselling or renting their dwellings. Some feel that an individual should have the right to sell or rent his dwelling unit for any amount the traffic will bear.

In the case of luxury cooperatives or those for middle income families where no subsidy or tax advantages accrue to the original member, this attitude may be acceptable. However, one of the cooperative principles is that of non-speculation and non-profit operation. This original member has had the advantage of the efforts of the non-profit sponsors and of other cooperative members. He also has often had some tax advantage or even some form of subsidy to help him obtain a decent, livable house which otherwise he might not have been able to afford.

Most feel, therefore, that there should be some restriction on resale prices and rentals particularly in those countries or areas, where new housing is difficult to obtain and where the price of a new house escalates in market value almost immediately after completion. If there were no such restrictions projects intended for families in need of help might soon be filled with higher income families and the purpose of the project defeated. For this reason cooperatives usually reserve the right to purchase the shares of a retiring member and restrict the rights to members to rent their units except for limited periods at established rates.

Some cooperatives for low and low-middle income families do not permit members to build equity beyond the amount of the initial down payment, which they are entitled to recover when leaving the cooperative.

On the other hand, many cooperatives believe that when members leave a project they should receive part or all of the amount they have paid toward retiring the mortgage plus the value of any approved improvements they have made at their own expense, less an amount of depreciation.

While speculation in the shares or the dwelling units of a cooperative is to be discouraged, it is patently unfair in times of inflation to expect a member who has an equity of say $1,000 in 1950 dollars to get back only $1,000 in 1970 dollars which are worth considerably less. This might make it almost impossible for him to make a down payment on another home of similar size and quality on the open market. Consequently, it is important that cooperatives use good judgement in establishing and enforcing resale restrictions.

Inflexibility of Mortgage Terms

Another disadvantage of cooperative ownership to some lies in the fact that the member does not have control over the terms and conditions of the mortgage. The mortgage is a fixed collective responsibility with each member paying his proportionate share. The individual therefore cannot adjust the terms of the mortgage to his particular needs or financial capacity. For example, he cannot decide how much he will invest in cash and how much he will borrow. This means that an individual with a substantial amount of cash to invest cannot bargain for more favorable interest rates, decide the period of amortization, nor can he usually exercise pre-payment privileges or refinance his mortgage at his option. However, some cooperatives do permit pre-payment under certain circumstances.

These disadvantages must be balanced against the advantages outlined earlier and it is only fair to point out that a number of these disadvantages, such as bargaining for mortgage money, pre-payment, etc. are more likely to be of concern to individuals in higher income brackets than to those with lower incomes who generally benefit most from cooperatives.

IV

HOW HOUSING COOPERATIVES ARE ORGANIZED

The patterns followed in organizing housing cooperatives have varied greatly throughout the world.

The concept of a group of families in need of housing, banding together to organize a cooperative, buy land, design the houses, contract with a builder, and after completion, manage the property is an appealing one. Many groups have attempted to do just this. Some have succeeded, many more have failed.

The process of putting together a housing project is complicated, and cooperative housing projects are no exception. The job requires organizational, financial, legal, technical and managerial skills or the money to hire them. Most projects undertaken by the future occupants fail because the organizers are inexperienced amateurs and/or because they have inadequate financial resources. Furthermore, the "limited membership" cooperative which succeeds in completing a project for its members too often goes no further.

This has been a weakness of the cooperative housing movement in many developing countries where substantial numbers of small cooperative housing groups have existed for many years. Some few of these have succeeded in building houses for themselves but have stopped there. Many have acquired land but even more have never progressed beyond the status of social organizations. As a consequence they have had little or no impact on the housing situation in their countries.

Housing cooperatives have prospered in those countries where strong, consumer oriented organizations have developed, which are dedicated to the promotion of cooperative housing and the continuing construction of cooperative housing projects. Those which have had an impact on the development and growth of the cooperative housing movement fall under four general headings:

1) Sponsoring Organizations
2) Technical Service Organizations
3) Savings and Building Societies
4) Federations of Housing Cooperatives

Sponsoring Organizations

Organizations such as labor unions, church, civic groups or established cooperatives have often provided the organizational or financial support that has made possible the successful initiation of an on-going cooperative housing program.

Examples of successful sponsor-supported cooperatives include the group of garment workers that started in New York City in 1926 with the sponsorship of the Amalgamated Clothing Workers Union. They succeeded in building a project for 303 families and from this modest beginning grew the United Housing Foundation which has now built over 35,000 units of cooperative housing in around New York City.

El Hogar Obrero is another labor union affiliated housing cooperative in Buenos Aires, Argentina, started in 1905. It has built and manages 12,000 units and has organized cooperative supermarkets and banking facilities.

Another cooperative housing organization in Sweden, the Svenska Riksbuggen (SR) was organized by unions of workers in the building trades.

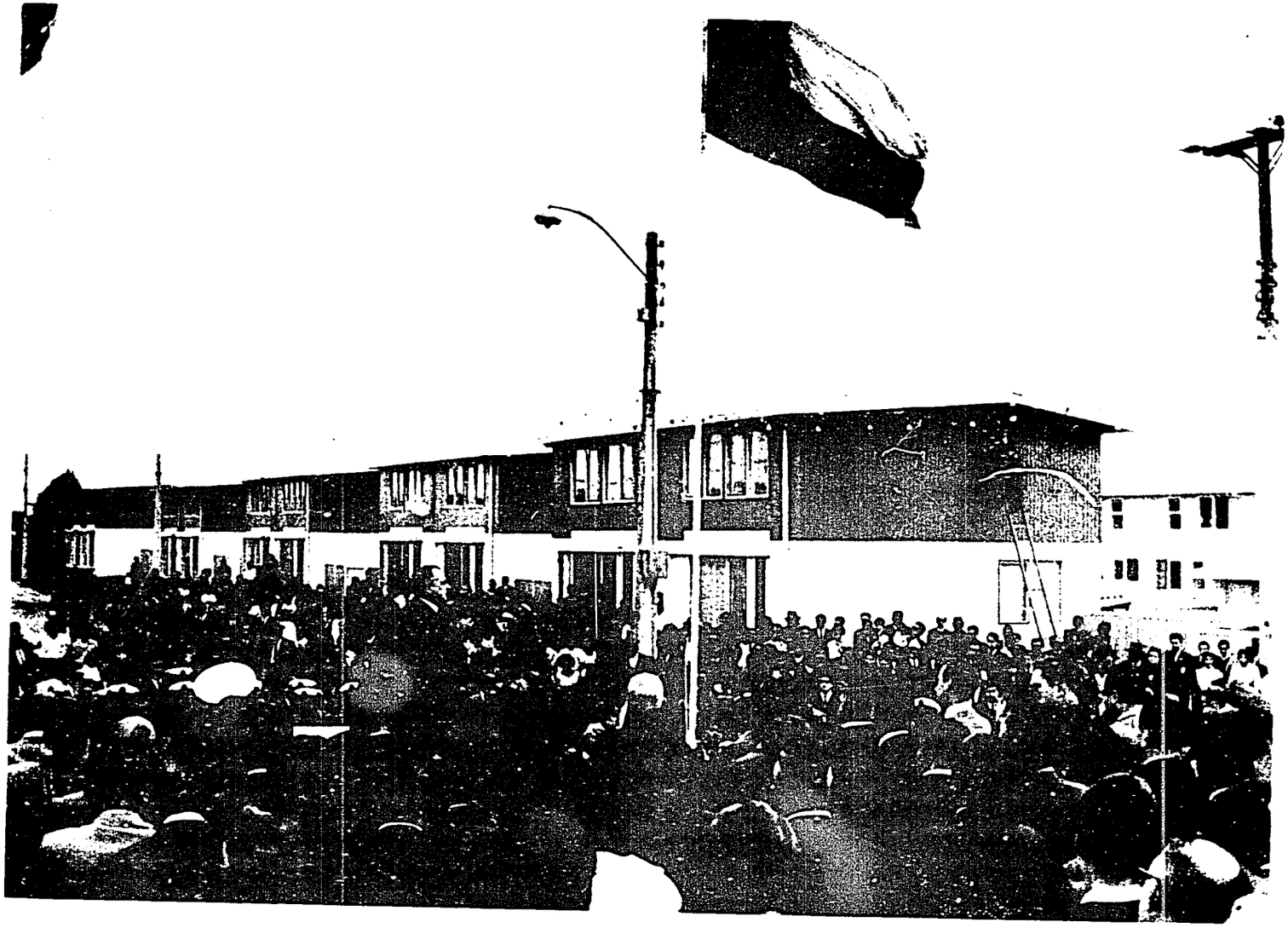
Church groups have also sponsored cooperative housing undertakings. For example, in Chile the Instituto de Viviendas Populares (INVICA) which has been responsible for the construction of some 8,000 cooperative units, originated with church support.

These few examples point up the fact that the right kind of sponsorship which enables cooperative groups to obtain organizational and financial help can play an important role in the production of housing.

Generally, sponsoring organizations such as those mentioned do not themselves provide technical help. Instead, they provide administrative support and funds to hire the technical skills needed for carrying out cooperative housing projects. In most cases the next step in an on-going program has been the establishment of a specialized organization which has organizational skills and can also furnish or obtain the necessary technical and legal help. More often, they undertake the entire task of organizing, obtaining financing, designing, building and even managing cooperative housing projects.

New cooperative housing built near Buenos Aires by El Hogar Obrero, one of the oldest cooperatives in the Western Hemisphere

Courtesy of El Hogar Obrero



Dedication of the 545-unit "Los Condores" cooperative in Concepción, Chile

Courtesy of INVICA

The Technical Service Organization (TSO) and the Savings and Building Societies have been the most effective organizations of this type. Both have certain advantages and disadvantages which will be brought out later.

Technical Service Organizations

The Technical Service Organization (TSO) has had a substantial impact on the growth of cooperative housing in a number of countries. TSO's are non-profit, consumer oriented organizations which promote, organize or assist in organizing housing cooperatives and also supply or hire the essential technical, financial, legal and organizational services. TSO's may serve as sponsors, or they often work with other sponsoring organizations and in some cases with existing cooperative groups to provide them with the technical skills which they as laymen lack. They are usually self-supporting from fees paid by the cooperatives they organize.

TSO's are not usually cooperatives, nor are they savings institutions *per se*. Savings or deposits from potential members of cooperatives being formed by TSO's are normally not used for any purpose other than as the down payments for these individuals or in some cases to buy land for the project.

A TSO's formal relationship with a cooperative it has organized usually ceases when the project is completed and owner-occupants take over the management of their own affairs. However, the TSO may continue to give technical assistance, or provide management services under a contract with the cooperative.

While the procedures followed by TSO's in organizing and building cooperatives may vary, the services generally performed on behalf of cooperatives include the following:

Making a market analysis where needed; organizing the cooperative and arranging all legal matters; selecting and acquiring land; carrying out sales programs; initiating savings programs; arranging financing; obtaining architectural and engineering services for the planning of the site, the design of the houses and the handling of contract arrangements and supervision of the construction of the project. In addition TSO's conduct educational programs for the cooperative members and their elected board of directors.

While TSO's often develop into well staffed organizations with their own architects, engineers, lawyers, as well as sales and management personnel, it is a type of organization that can be established with a modest amount of capital.

The paid staff of a new TSO might well include only a director or manager and a secretary. An unpaid board of trustees made up of prominent local citizens interested in cooperative housing may serve the TSO in an advisory capacity and act as sponsors for new cooperatives. Technical services, including legal, architectural and engineering, and accounting may be employed on a fee basis and be remunerated at the time of "closing" on a project.

A simple table of organization is shown in the following diagram in Figure 1.

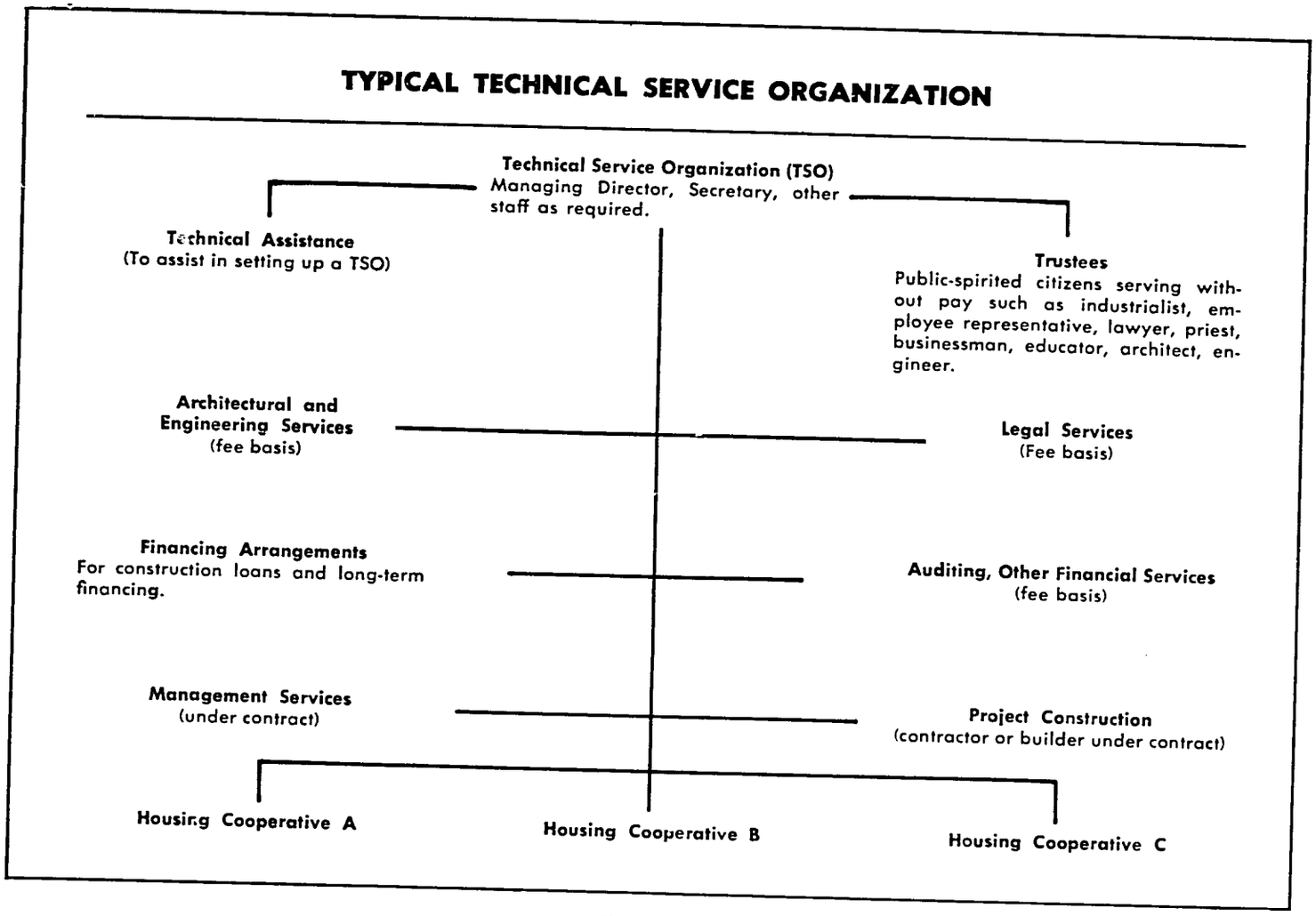

TYPICAL TECHNICAL SERVICE ORGANIZATION
Technical Service Organization (TSO)
Managing Director, Secretary, other staff as required.
Technical Assistance
(To assist in setting up a TSO)
Trustees
Public-spirited citizens serving without pay such as industrialist, employee representative, lawyer, priest, businessman, educator, architect, engineer.
Architectural and Engineering Services
(fee basis)
Legal Services
(Fee basis)
Financing Arrangements
For construction loans and long-term financing.
Auditing, Other Financial Services
(fee basis)
Management Services
(under contract)
Project Construction
(contractor or builder under contract)
Housing Cooperative A
Housing Cooperative B
Housing Cooperative C

Figure 1

Technical service organizations are found in many countries. In Denmark, the various trade unions and cooperative craft and housing organizations recognizing the need for technical and administrative assistance, joined together to establish Arbejderbo (The Workers Home), a TSO staffed to furnish such help.

In the United States the best known TSO's are the United Housing Foundation, mentioned earlier, the Association for Middle Income Housing (AMIH) and FCH Services, Inc. (FCH), the operating arm of the Foundation for Cooperative Housing. The first two confine their activities largely to New York City and its environs while FCH is active through the United States and Puerto Rico as well as in other countries and has sponsored over 45,000 dwellings.

In Latin America there are a number of TSO's including the following:

INVICA, TECHNICOOP and INVICOOP in Chile;

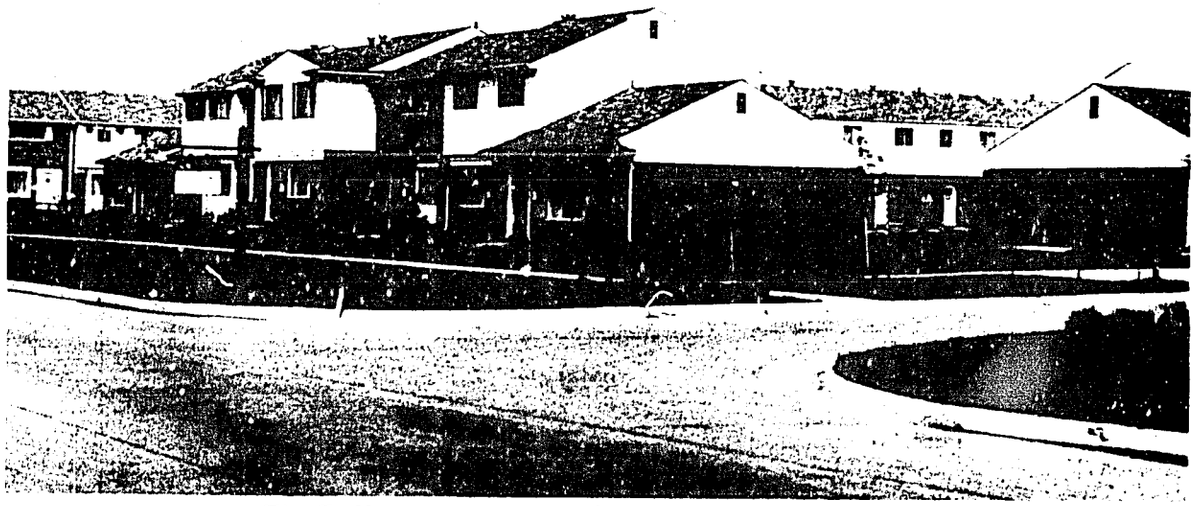
INVICA in Venezuela;

FUNDAVICO, in Panama, which is now assisting in a broad program of cooperative housing in both urban and rural areas financed largely through a AID loan of $3,500,000;

PROVICOOP, in Colombia, which grew out of the Federation of Housing Cooperatives (FEDECOOP) and is building projects in Bogotá, Medellene and Cali;

FECHOVIL, in Honduras, which is also a federation of housing cooperatives;

Mutual Housing Services, in Jamaica, which is assisting several cooperative groups to obtain financing and construct projects.



The FCH Services Inc., a subsidiary of the Foundation for Cooperative Housing, is responsible for some 45,000 units of cooperative housing in the United States, Many of the units are in town house projects such as this one in Clinton, Michigan.

International Technical Service Organizations

Assistance to developing countries in cooperative housing is provided principally by three private organizations.

Two of these are FCH Services, Inc., mentioned earlier and FCH International (FCHI), both subsidiaries of the U.S. Foundation for Cooperative Housing. They have been giving help to cooperative organizations in developing countries since 1962.

FCH programs including feasibility studies in Latin America, Africa, and the Middle and Far East have largely been funded by the U.S. Agency for International Development (AID). In some cases assistance has been provided under contract with the Inter-American Development Bank and in other cases with the governments concerned.

FCH programs in Latin America have been directed primarily at cooperative education and the establishment of indigenous technical service organizations. In fact, all of the TSO's mentioned earlier except those in Chile and Venezuela were developed with FCH assistance.

The third organization is the International Cooperative Development Association (ICHDA).[2] This is a multinational association established in Vienna, Austria in 1966. The founding organizations, all members of the International Cooperative Alliance (ICA) included: The HSB:s Riksforbund; and the Svenska Riksbyggen, both of Sweden; Kolutusosuuskuntien Keskusliitto (KK), of Finland; East Midlands Housing Association of England; Shijun Ovdin of Israel; and the Foundation for Cooperative Housing of U.S.A. Since then, these have been joined by the Instituto Viviendas Populares (INVICA) and TECHNICOOP of Chile; the Gesamtverband Gemeinnutziger Wohnungsunternehmen, of Germany; Faellesorganisationen af Almennyttige Danske Boligskaber, of Denmark, and Cooperative Planning Ltd. of England.

ICHDA is a non-profit organization devoted to providing technical assistance in the developing countries and has as its immediate objectives:

a) Pilot program development.

b) Collaboration with the United Nations with which it has a working agreement.

c) Mobilization of capital assistance from National Development Agencies.

d) Establishment of a "Talent Bank."

Savings and Building Societies

Savings and building societies are essentially open-membership cooperatives which, as was mentioned earlier, accept as members any who are qualified and who wish to join. Members normally consist of those saving to buy a dwelling in a housing project to be built by the cooperative as well as those who are member/occupants of the cooperative housing projects already completed.

These cooperatives are usually made up of a parent organization which sponsors, helps to finance and build projects which, when completed, become self-contained and managed "limited membership" cooperatives. However, there usually continue to be close ties between the individual cooperative and the parent organization since all remain members of the parent organization.

Most such cooperatives have savings programs for those who are accumulating funds for down payments on their dwellings. These programs are sometimes administered by an affiliated housing bank or credit union which also accepts "free savings." Thus, open membership

generate capital which is available for land acquisition or construction. For this reason they might have an important place in countries where financing is not readily available in the open market.

In addition to generating capital, savings and building societies perform all of the functions of a technical service organization. In some cases they go even farther.

The largest and best known of these societies is the National Association of Tenants' Savings and Building Societies (H.S.B.) in Sweden. This movement was originally organized by local tenants associations formed to secure better treatment from landlords. The first Tenants' H.S.B. or Tenants' Savings and Building Society was formed in Stockholm in 1923. Since then it has built 292,924 dwelling units and has 341,316 members.

H.S.B. is an open membership cooperative organized on three levels. (1) The daughter societies which are independent autonomous cooperatives made up of the occupant/members of individual housing projects. (2) The mother societies or local H.S.B.'s whose members are the daughter societies as well as individuals who are saving for their down payments (3) The central H.S.B. whose members are the local H.S.B.'s.

The local H.S.B.'s (mother societies) promote membership, accept savings of members, purchase building sites, obtain financing and arrange for the design and construction of buildings and facilities for specific projects. When these are completed dwellings are allocated to individual members who have saved their down payments. The members then form a daughter society, elect their own board of directors (except for one appointed by the central H.S.B.) and manage their own affairs. However, the local H.S.B. continues to take care of the bookkeeping and arranges and supervises the sale and exchange of dwelling units and helps with the purchase of various items.

The central H.S.B. (or National Association of H.S.B's) is the policy making body for the H.S.B. movement, deals with public authorities and provides a variety of services to its members and their housing cooperatives. These include architectural, engineering, town planning and financing functions. It also operates various business enterprises such as banking, materials purchasing and manufacturing, prefabrication and building.

The type of organization developed by H.S.B. has real advantages.

First, because of its three level organization it incorporates under one umbrella the functions of a limited membership cooperative, a TSO and a federation of housing cooperatives.

Second, because of its open membership it can attract substantial savings from large numbers of individuals many of whom are not potential borrowers. This provides the capital to carry on a continuous land acquisition and building program and attracts long term financing on favorable terms.

Third, its centralization of functions like architecture, planning, engineering, financing, purchasing, accounting, building, managing and research enable it to provide all of the necessary services to its individual cooperatives at a low cost.

The principal problems attendant on establishing savings and building societies in developing countries lie in their somewhat complex structures, the need to attract enough members to make their operation viable, and encouraging the members to maintain their savings accounts, sometimes

A cooperative housing project built by HSB; s Riksforbund at Halsingborg, Sweden.

Courtesy of HSB: Riksforbund

in the face of inflation. Nevertheless this type of organization has succeeded in a number of countries other than Sweden, including Denmark, Norway and Argentina and would appear to have potential in other developing countries where there is a substantial effective demand for middle and low-middle income housing.

Cooperative Housing Federations

In countries where there is an active cooperative movement individual societies generally band together for mutual support and as a means of promoting the cooperative concept.

There are usually alliances embracing cooperatives of all types and frequently federations of those with similar objectives. So, many countries have federations of housing cooperatives.

These organizations, in addition to offering their members the opportunity to exchange experiences and to work together for common objectives, serve other functions. These include organizing educational programs and distributing information to promote cooperative housing; the establishing of standards for cooperative housing; the promotion of various self-help activities among cooperative housing members; representing member organizations on matters affecting cooperative housing, including such things as legislation.

Federations do not usually provide the same services as do TSO's or Savings and Buildings Societies. However, in some instances as in Honduras they have undertaken to provide technical assistance in the absence of any TSO.

Federations are supported by the dues paid by member cooperatives. Consequently, except in countries with substantial numbers of housing cooperatives, they have usually had limited budgets and often have not been as effective as might be wished.

V

FINANCING COOPERATIVE HOUSING

The financing of low and low-middle income cooperative housing presents many of the same problems as does that for conventional housing in the same price category in any given country. However, as we have seen, cooperatives have certain features that make them of special interest in developing countries.

Cooperative Savings Programs

One aspect of housing cooperatives is that they generate capital through savings programs. This is particularly true of open membership cooperatives. While individuals can and do save and make investments in homes it is somehow easier when they become enrolled in organized savings schemes with others and are regularly saving a predetermined amount to attain a specific goal.

Some of these savings programs are organized specifically for prospective members of limited-membership cooperatives so that those who save regularly will have accumulated their down payments by the time the project is ready for occupancy.

In open-membership cooperatives many men join when they are young and begin saving so that when they marry they will be able to obtain a house.

Savings programs such as these channel money into savings institutions or into the cooperatives themselves thus providing capital which can be used to help finance land acquisitions and construction of dwellings.

The H.S.B. in Sweden, has its own savings bank which finances an appreciable part of the planning and construction costs of projects which it sponsors. The local H.S.B.'s from different areas of the country collect savings from their members and act as branches of the central H.S.B. bank which is an agency of the national H.S.B. In order to attract "free savings" from members who already have homes, the bank pays a higher rate of interest than do commercial banking institutions. Of those saving with H.S.B. less than one third are saving for the financing of a home.

Housing cooperatives in Denmark[3] also endeavor to finance building programs from their own resources by encouraging members to contribute capital by channelling their savings into housing projects. In addition, other types of cooperatives within the Danish cooperative movement have invested funds in cooperative building programs. The Government has also provided supplementary financing for cooperatives.

In the Federal Republic of Germany,[4] cooperative funds which are available for financing, consist of the share capital which amounts to between 300 and 1,500 marks per member, an equivalent amount represented by the reserves for emergencies and the reserves built up from surplus profits.

Furthermore, a number of cooperatives also have at their disposal free savings from members. These cooperatives administer more than 100,000 savings accounts with an average account balance of over 2,000 marks, or a total of around $55,100,000. In 1968 some 25.5 percent of the mortgage money for cooperative housing in Germany came from the cooperatives.

El Hogar Obrero[5] in Argentina, which has some 237,900 associates, reports that some of its members enroll their children at birth and start savings accounts for them. Many members also maintain savings accounts with the cooperative in preference to using commercial banks, as do some of the labor unions. As a result, despite inflation, El Hogar Obrero has been able to continue to finance at least some cooperative housing projects from its own resources. In 1968 the law authorized the cooperative to pay up to 12 percent interest on invested capital which is exempt from income tax.

Financing From Private Banks or Other Credit Institutions

Although cooperative savings programs have helped in the financing of construction it has usually been necessary to look to other sources for the bulk of the long-term mortgage money.

For example, in Sweden, while the H.S.B. provides substantial amounts for short term construction financing, these funds are usually replaced with long-term mortgages from other sources once projects are completed. These mortgage loans of from 40-60 years are granted under a triple-mortgage system in which 70 percent (in the form of first and second mortgages) are obtained from banks, insurance companies, or other credit institutions. The third mortgage is held by the Government and may be as much as 25 percent leaving only 5 percent as the down payment required from the cooperative members.

In Germany, some 51 percent of the mortgage money for cooperative housing comes from mortgage banks, municipal savings banks, private and public home building savings banks and others.

In Latin America, relatively few cooperative projects have been financed from private sources. However, in Chile, loans for a substantial portion of the cooperative housing units were made by the savings and loan associations which were the recipients of loans from AID and IDB.

In Jamaica also, the Victoria Mutual Building Society, a private savings and loan association, is financing the construction of a cooperative project of 188 units for the Mountain Terrace Cooperative.

Financing from Government Banks or Housing Agencies

In most European countries, the governments help supplement the financing available from the cooperatives and private financial institutions. For example, inThe Federal Republic of Germany, in

1968 21.1 percent of mortgage loans were from public funds. In Sweden as much as 25 percent may come from the Government.

In Latin America, some governments have financed a few cooperative housing projects. Both El Hogar Obrero and Cooperativa Rosarina in Rosarina have obtained mortgage money from the National Mortgage Bank (Banco Hipoticario).

In Colombia the Central Mortgage Bank and the National Credit Institute (ICT) have financed a number of cooperative projects.

Brazil, on the other hand, has undertaken a substantial program for the financing of housing through the National Housing Bank (NHB) using the resources of the "Employment Security Fund." One quarter of the Triennial Plan of Housing investment, will be used to finance cooperative housing. Some 116,000 units are planned representing an investment of $343,750,000.[6]

Financing from External Sources

Some cooperative housing in Latin America has been financed from the U.S. Agency for International Development (AID) and the Inter-American Development Bank (IDB).

In some instances loans were made specifically for cooperative housing and channeled through the country's housing agency or bank. This was the case in Brazil, Colombia, Honduras and Panama.

In other cases, as in Chile, loans were made to the savings and loan system, which in turn reloaned to the cooperatives.

Since 1965, cooperatives have been one of the preferred categories of housing eligible for financing under the AID Investment Guaranty Program. Under this program, loans made by private U.S. financial institutions are guaranteed by AID against loss. In 1970 some $20,345,000 in applications for guaranties for cooperative housing projects had been issued letters of advice.

Alternative Sources of Financing in Developing Countries

Because conventional financing in most developing countries has not been adequate to meet the needs of housing cooperatives, there is considerable feeling that the cooperatives themselves must undertake a more important role in generating funds for dwelling construction as they have in Europe.

One approach proposed has been the organization of open membership cooperatives of sufficient size to generate savings on a scale which would permit financing a greater share of housing construction than is presently possible. In a number of developing countries the consolidation of the numerous small, independent cooperatives under a single "National Cooperative" or parent society might well create an institution with substantial capabilities not only of attracting savings but of obtaining access to long term financing on favorable terms. Chile has recently formed an open membership cooperative with this in mind.

Another approach might be similar to that found in Germany where savings and loan institutions controlled by housing cooperatives and other non-profit housing societies produce substantial amounts of mortgage money. There is already one savings and loan association in Venezuela which is oriented towards cooperatives.

At the Third Inter-American Seminar on Cooperative Housing held in Rio de Janeiro in 1968, Sr. Hector Rubio A., of Chile, stated that "The cooperative movement must go after the savings of other cooperative sectors."[7] In Chile this has involved the establishment of a Cooperative Bank controlled by the cooperative movement as a whole and dedicated to the generating of capital and the financing of cooperative undertakings.

Generally speaking, in most developing countries the savings of open membership cooperatives, even when coupled with savings that might be attracted to cooperative savings and loan institutions or cooperative banks, would probably be inadequate to support a sustained building program of any great magnitude. Therefore, other sources of financing, particularly for long term mortgages, would be needed.

The most obvious source of the additional long-term financing is of course, the government. However most governments are not in a position to inject much additional money into housing and external financing is not likely to increase. Consideration might then be given to the establishment of Mortgage Credit Cooperatives along the lines of those which operate effectively in Denmark.[3] These cooperatives were formed for the purpose of obtaining mortgage loans. They are autonomous but subject to government supervision. The cooperatives are the mortgagors who control the association in accordance with cooperative principles.

These are not savings societies; instead the funds are obtained through issuing tax-free bonds equal in value to the mortgage given. The interest collected from the mortgagors (the housing cooperatives) is paid to the bond holders.

The bond holders do not have liens on specific pieces of property but are protected by all of the property that has been mortgaged by the credit cooperative. All mortgagors are thus jointly liable and the security, in turn, is shared by all bond holders.

In Latin America Cedulas de Hipotecario are similar but have not been commonly used to finance low-middle income housing.

Another source of partial financing is industry. As existing industries have expanded and new ones develop, particularly outside urban areas, there has been an increasing demand for workers housing. In many cases, industries, particularly those in the extractive or raw material processing fields which are located at the source of supply have felt it necessary to build housing in order to attract and hold workers. Most who have built "company towns" have regretted it. Some industrialists are now seriously considering cooperative housing as an alternative. This relieves them of the responsibility of building and managing communities. At the same time, by making home owners of their employees they are more likely to have a stable work force, and a better community.

In Escuintla, Guatemala,[8] seven firms joined in helping to finance the construction of a single-mortgage cooperative community known as El Modelo which has 188 units of housing for workers in the area. The Instituto National de la Vivienda (INVI) provided 55 percent of the

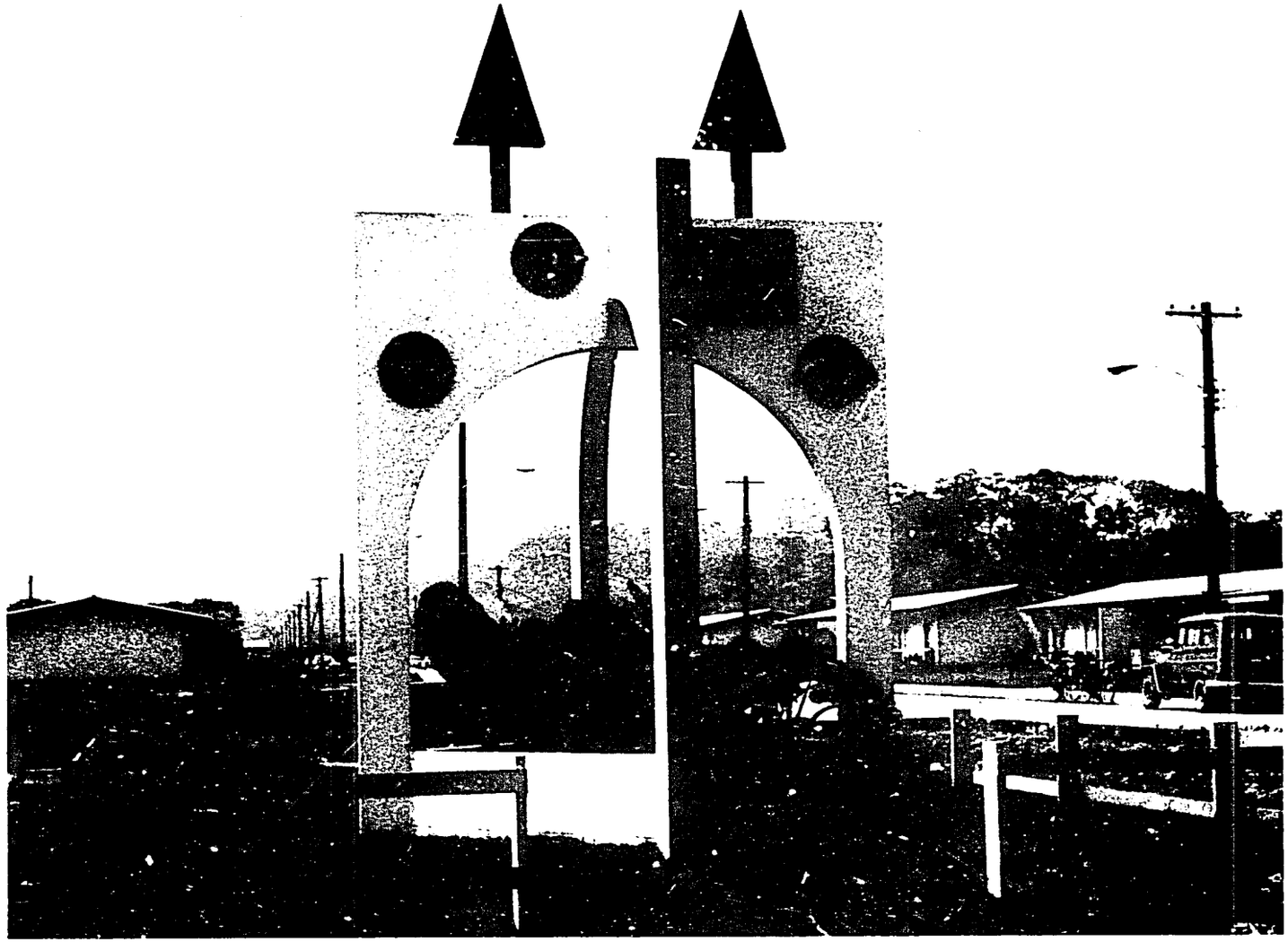
development funds. The industrialists provided the land, the cost of which was included in the mortgage, and arranged for an additional $118,000 mortgage loan through a local savings and loan association. The Central American Bank for Economic Integration (CABEI) agreed to absorb 80 percent of this latter amount in the form of a second mortgage. The remaining 10 percent came from the cooperative members.

El Modelo, a 188-unit, single-mortgage housing cooperative for industrial workers at Escuintla, Guatemala

In La Ceiba, Honduras, a cooperative project was constructed to provide housing for employees of the Standard Fruit Company and others in the community. In this case, also, the company helped finance the project by providing land. The remainder came from the members of the cooperative and a substantial loan from AID.

Help for Lower Income Families

One of the knottiest problems to solve in connection with housing for low-middle income families has been that of high interest rates on mortgage loans. Concessional loans by AID and IDB

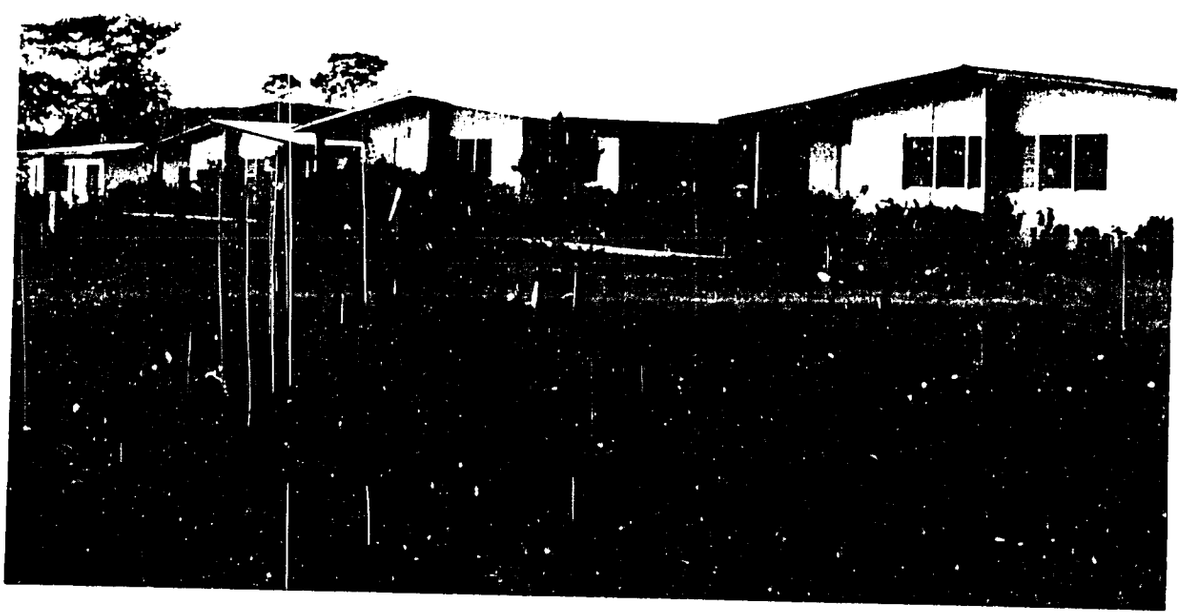


The El Sauce Cooperative at La Ceiba, Honduras is an A.I.D. financed project for industrial workers.

provided a partial answer but were of necessity limited and cannot be depended on to finance substantial amounts of housing in the future.

A solution that is worth consideration by developing countries is one that has been used successfully in the United States under the Federal Housing Administration mortgage insurance program for low-middle income families. This involves an interest subsidy on insured mortgages for non-profit housing built by private organizations. This approach has advantages over publicly financed and built housing since it does not require large capital outlays on the part of the government nor the continued hidden subsidies which are common in government built housing projects.

In addition to building up savings as a means of capital accumulation, other devices are worth consideration to help in the financing of cooperative housing for low and low-middle income families where every dollar counts. One method that has been used is that of self-help or "sweat equity" in the construction of dwellings. This may augment or replace cash equity investments on the part of the members. This device was used successfully in the construction of half of the houses in a 57 unit cooperative housing project at David, Panama. It is also an essential part of the rural cooperative housing program being carried on in Panama which is described later.



Twenty eight of the seventy eight dwellings in the Dos Pinos housing cooperative in David, Panama, were built with self-help labor

VI

CONSTRUCTION OF HOUSING COOPERATIVES

Relatively few housing cooperatives or TSO's actually design and construct the housing projects they organize. Rather they employ independent architects and engineers and let construction contracts on the basis of competitive bidding, or in some cases, negotiation. This is because maintaining the sizable, salaried staffs needed for these undertakings would require a continuous, high volume of activity which relatively few can sustain.

Where housing cooperatives are strong and there is adequate financing to assure a continuing market for dwellings the "cooperative construction company" is a logical extension of the cooperative housing movement. Competent, non-profit building organizations can offer substantial savings which when added to those already inherent in housing cooperatives can mean important reductions in housing costs.

In a number of European countries, production cooperatives made up of construction workers exist. Unfortunately they are often organized along craft lines and have yet to consolidate so that they may pool their resources and act as general contractors.

However, the feasibility of undertakings of this kind has been successfully demonstrated in Sweden where the S.R. (Svenska Riksbyggen) or Swedish National Building Society, which has an organization similar to H.S.B., does construct its own projects as well as building housing for others.

This cooperative was organized by workers in the building industry about 25 years ago to counteract high unemployment during World War II. In its first twenty years S.R. built more than 70,000 dwelling units of which 50,000 were cooperatives.[9]

A number of cooperatives have entered the building material and equipment field either as consumer cooperatives purchasing materials at wholesale for the benefit of their members or even as production cooperatives which manufacture a variety of materials, equipment or components.

For example, the H.S.B. not only purchases materials but also manufactures bricks, pipe, doors and windows as well as kitchen and dining room equipment and sanitary facilities. H.S.B. also has its own factories for the production of prefabricated houses which are also sold in the open market both in Sweden and abroad.

In Chile, SODOMAC, a building materials consumer cooperative, supplies materials at low cost to other cooperatives and to the public.

In the United States a number of the large farmer consumer cooperatives also handle building materials and equipment.

A cooperative housing project in Malmo, Sweden

Courtesy of Svenska Riksbyggen

In Germany, a building materials center founded by public-benefit housing enterprises for the joint procurement of materials, supplies materials to its members at reduced cost.

As in the case of construction cooperatives, building materials supply or production cooperatives can be important factors in reducing housing costs. They should be given serious consideration in countries where there are a number of active cooperative groups which could materially benefit from a source of low cost building materials and equipment. Such a non-profit consumer cooperative could be organized by groups of cooperatives, by an established technical services organization or by a large cooperative savings and building society. To be viable such a cooperative would of course, have to sell to the general public as well as to housing cooperatives.

VII

MANAGEMENT OF HOUSING COOPERATIVES

In cooperative housing good management is considered as important as good planning, design or construction.

Consequently, well run cooperative housing communities, particularly those with mutual ownership, are likely to be better kept and the buildings better maintained than those in rental projects where services are provided at the sufferance of a landlord or those made up of individually owned units where maintenance is left entirely to each family.

Furthermore, cooperatives are generally less likely to be plagued by delinquencies in repayment and usually can provide many services to their members which are rarely available in conventional middle or low-middle income housing projects and do so at reasonable cost.

The keys to successful cooperative community management lie in:

1) careful screening of applicants for membership, particularly as to their financial capacity and credit worthiness;
2) carrying out a program of pre-occupancy education for the new members so that they understand the nature of a cooperative and are aware of their obligations as well as their privileges.
3) conducting a sound training program for the Board of Directors. This is essential since they will be responsible for carrying out the wishes of the membership and managing the affairs of the cooperative;
4) establishing a sound financial plan which provides at the outset a realistic budget covering all operating costs including day-to-day care and maintenance of buildings and grounds;
5) establishing reserves to protect the cooperative from losses due to vacancies or delinquencies and to provide for periodic painting and the replacement of equipment and elements of buildings (such as roofs, etc.) when they wear out or deteriorate;
6) setting up good collection procedures and the prompt payment of obligations;
7) regularly auditing accounts and reporting to members;

8) maintaining member interest in the cooperative and encouraging programs of community and social activities which involve the members and benefit the cooperative as a whole;
9) establishing a good maintenance program for dwellings, facilities, grounds, community buildings and other commonly owned property.

The Board of Directors

While the functions outlined, as well as others, are the responsibility of the Board of Directors elected by the members they cannot perform alone.

Actually, the Board's primary responsibilities are to elect the officers of the cooperative, set policies and standards for maintenance, approve budgets and extraordinary expenditures, enter into contracts, arrange for the bonding of officers charged with the handling of funds, approve and disapprove applicants for membership, and develop rules and regulations in accordance with the by-laws and see to it that they are carried out.

The day-to-day responsibility for carrying out most of the Boards policies falls on the manager hired by the Board, or on a managing agent.

Day-by-Day Management

In cities, or areas where there is more than one cooperative, a technical service organization can and frequently does provide complete management services on a fee basis, or may undertake only certain functions such as furnishing bookkeeping or accounting services, handling insurance, etc., which they can often do more cheaply at a central office than if each project hired such work done individually.

Similarly, in open membership cooperatives, bookkeeping and other appropriate services are centralized and provided by the parent organization on behalf of the cooperative projects.

When the project is too small or the income level of the families is too low to pay for a full time professional manager, as is often the case in developing countries, managerial responsibilities must be assumed by the board and the work carried out by committees or volunteers from among the members or by paid part-time employees. For example, a qualified project resident might be paid to receive monthly carrying charges from the members and serve as bookkeeper. Or, sons of project members might be paid on an hourly basis to keep community green areas mowed and cleaned.

In any case, whoever has responsibility for day-to-day management has at least the following duties:

1) Preparation of operating budget.
2) Collection of members carrying charges.
3) Maintaining bank accounts on behalf of the cooperative.
4) Keeping the books of the cooperative.
5) Making scheduled payments and disbursing operating funds either budget limitations or with Board approval.

6) Making frequent financial reports to the Board of Directors.
7) Making periodic inspections to determine the condition of buildings, grounds and facilities.
8) Employing and supervising workers who maintain the grounds, recreation areas, etc.
9) Hiring workmen or contracting for building maintenance including exterior painting, repairs to plumbing and electrical systems, roofs, gutters, windows, doors, etc.
10) Scheduling use of community buildings and facilities.
11) Encouraging social and other community activities.

Reserves

Because of their importance to the financial well being of a cooperative special mention should be made of the reserves set up to protect the cooperative.

While these may vary somewhat depending on circumstances, those established by many cooperatives for low-middle income families in the United States will serve as examples. Here three types of reserves are usually established.

1. *Reserves for delinquencies or vacancies.*
   In the United States carrying charges are estimated on the basis of full occupancy with a 2 percent allowance for vacancy and collection losses. Thus, if a member should be temporarily out of work or be in financial difficulties because of illness and become delinquent, the cooperative can draw on these resources to meet its commitments. Similarly the cooperative would be protected if a dwelling purchased by the cooperative from a withdrawing member were to remain vacant for a short period.

2. *Reserve fund for replacement.*
   This fund is for the purpose of defraying, at least in part of the cost of replacement when necessary, of structural components and mechanical equipment. The amount is determined on the basis of estimates of the cost of replacements and the time period between replacements.

3. *General Operating Reserve.*
   This is intended for unforeseen contingencies and to finance resales of memberships etc. In the United States this is usually set at about 3 percent of the monthly carrying charge.

Collections

The prompt collection of carrying charges is an important part of management.

The usual procedure is to have members make their payments on a fixed date at the project office. If there is no payment office a collection point is set up in the community center or at the home of a member responsible for collections.

In some cooperatives, members make their payments directly to a local bank which handles the cooperative's account, will do the bookkeeping and submit a report to the cooperative each month. In any case, it is important that (1) the collection office beconvenient for the members, and (2) that the collection date be fixed to coincide as nearly as possible with the date most members

are paid. In some cases there may have to be some flexibility and payments may have to be accepted more than one time.

Another, and a very desirable method is to have regularly employed members arrange with their employers to deduct their carrying charges from their wages and turn them over to cooperative. This method is used by the El Modelo Cooperativo in Escuintla, Guatemala described earlier.

Regardless of the procedures adopted it is vital that delinquencies be dealt with promptly by a cooperative and any problems resolved. Laxity in making collections is fatal.

Cooperative Committees

Committees of members to assist the Board of Directors in making decisions and in carrying out programs are an essential part of a cooperative organization. These committees not only involve the members in community affairs but can help save the cooperative money.

Typical Committees include:

A Watchdog Committee which keeps an eye on all cooperative activities.

An Activities Committee which recommends programs of social and community activities, establishes and supports programs approved by the Board of Directors and encourages member participation in the affairs of the cooperative.

A Finance Committee which reviews and reports to the Board on budgets and expenditures, the annual statement by the auditor and other financial matters.

A Membership Committee which reviews membership applications and makes recommendations to the Board as to approval or disapproval, welcomes new members and orients them to cooperative membership. The committee also helps adjust disputes between members or between members and the cooperative, when requested.

A Community Relations Committee which is the public relations branch of the cooperative. It assists the Board in its relations with local officials, other community organizations, etc. It often publishes a news letter informing members of community activities, Board actions and policies, events of interest within the cooperative, etc.

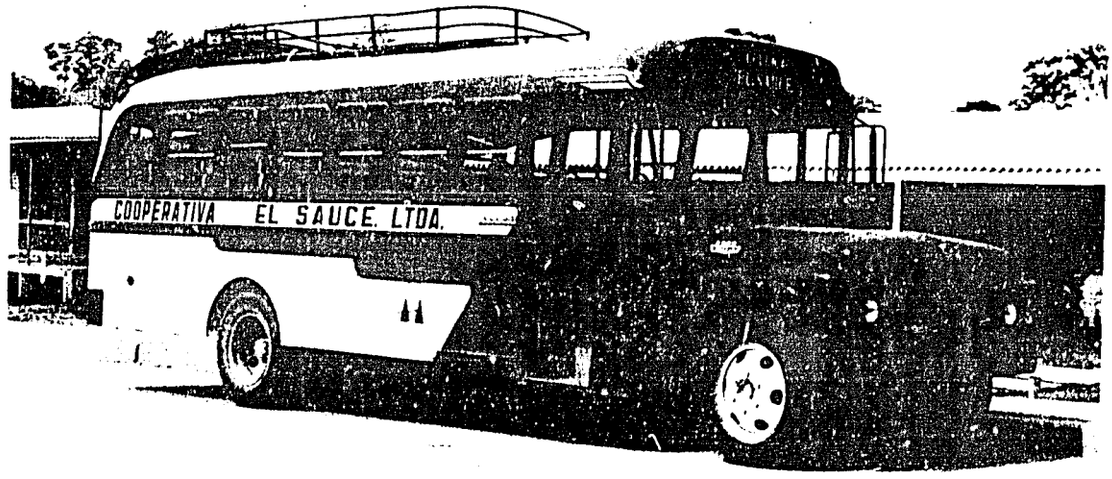
Cooperative Undertakings

Cooperatives provide an ideal framework for group action in a variety of undertaking and activities of importance to members and to the community.

Many cooperatives in Europe and some in Latin America such as El Hogar Obrero either sell or arrange group purchases of furniture and equipment for members at low cost.

The El Sauce Cooperative in La Ceiba, Honduras, which was completed in 1968, already has a small supermarket, a community center and a cooperative bus line. The Covisula Cooperative, in

San Pedro Sula, Honduras, completed in 1969, has a store, a credit union, a soccer field, and plans for a community center. A low-middle income cooperative in Escuintla, Guatemala, composed of industrial workers, which was finished in 1969, has already built a school, and has an approved plan for partial financing of a community center and recreation facilities. The cooperative provided the land for the school and part of the capital; CARE (Cooperative for American Relief Everywhere) provided some of the financing and INVI, the government housing agency provided plans, specifications, and the construction.



The bus owned and operated by the El Sauce cooperative in La Ceiba, Honduras.

These are only a few examples of the type of activity which cooperatives undertake and carry out on their own initiative.

VIII

COOPERATIVE EDUCATION

Education in the principles and practices of cooperative housing and in the fundamentals of cooperative living is essential if groups are to live together harmoniously in democratically controlled cooperative communities.

"Cooperative living is different because a cooperator becomes both a landlord and a tenant, an owner and yet a part owner. This creates many conflicts and problems which are essentially the problems of any individuals who are required to consider directly the needs of a group."[10]

For these reasons educational programs are usually carried out by sponsors of Technical Service Organizations to insure that those planning to become members of a housing cooperative become familiar with both their privileges and responsibilities.

Pre-occupancy educational programs for members may take several forms.

First, when individuals apply for membership, the theory of cooperative living as well as pertinent facts about the cooperative to be built are discussed. Specific information about the cost, carrying charges, resale privileges, etc. are also explained.

Second, meetings are held for those who have been accepted as members so that the project, the rights and responsibilities of membership and other matters pertaining to the cooperative can be reviewed more thoroughly and all questions answered.

Third, in many cooperatives, members are provided with a "Member Handbook" that includes background information on the cooperative, the sponsors, the relationship of members to the cooperative, the carrying charges and what they cover and the importance of meeting financial obligations. It may also have copies of the Articles of Incorporation or Charter, the By-Laws of the cooperative, the Membership of Subscription Agreement, the Occupancy Agreement and any other pertinent documents.

Even before the first pre-occupancy meeting of the members efforts are often made to obtain volunteers for committees and for cooperative leadership training. Those who are trained provide a pool from among whom the first board of directors is likely to be chosen.

Sometimes a "cooperative advisory council" is formed prior to occupancy. This usually consists of from seven to nine persons chosen by vote from among those who have attended the leadership training program.

This council works with the Interim Board of Directors which provides them with excellent experience. They also serve as a liaison between the members and the sponsor. Each of the council

members acts as chairman of one of the committees of the cooperative so that s short time after the project is occupied there is a well trained group ready to take over the work of the sponsor-appointed Board of Directors.

In addition to instructing those who are potential members it is important that residents of towns or the neighborhoods of cities in which a cooperative community is to be located be exposed to advance education through the news media, at open meetings, or both. Such programs make for good community relations, stimulate interest in the cooperative and lay the groundwork for a sales program if one is needed.

After occupancy, there should be frequent membership meetings with speakers who talk on various aspects of the cooperative movement. Social programs designed to encourage members to get to know each other are also important.

General Cooperative Education

In addition to educational programs for members of individual cooperatives, federations of cooperatives often carry out programs for the general public in many countries.

Courses have been held at CINVA in Bogotá, Colombia under the sponsorship of the Organization of American States for housing and cooperative specialists and government officials from Latin American Countries. Sub-regional courses are also being held throughout Latin America. These cover all aspects of cooperative organization, legal problems and management as well as design and construction. These courses have been conducted by FCH Services and have received some financial support from both the Inter-American Development Bank and AID.

IX

COOPERATIVE TECHNIQUES FOR LOW INCOME FAMILIES

The preceding chapters have dealt with cooperative housing for middle and low income families, in other words, "standard" housing for families with enough money for monthly carrying charges (principle, interest, taxes, insurance, utilities, maintenance costs, and reserves). However, cooperative techniques can also be effectively used, with modification to assist families whose cash incomes are not adequate to pay the costs involved in buying houses built by professional builders.

In most developing countries, famiiies in this category substantially outnumber those in the low-middle and middle income brackets and present the greatest problem. These are families who live in rural huts on their own land or on the land of others, or who invade vacant land in urban areas and build shacks by the thousands around the world. They often occupy sites, publicly or privately owned, which are unsuited to human habitation, or which are needed for other purposes. In any case, the people living in these "villas miseria", "favellas", or "barriadas", call them what you will, are usually without even the basic services of potable water and sanitary facilities, much less access streets, electricity, schools or other community facilities.

It is apparent that few, if any, developing countries are prepared to house large numbers of poor families in "standard" housing for which they cannot pay.

The alternative is to utilize the self-help potential of the people and to employ the limited government resources for those essentials which the families themselves cannot normally obtain—secure land tenure, essential utilities and low cost financing.

Families will build their own shelter. They can do it well if assisted with organization, technical help and small loans for at least some materials such as permanent roofing and cement for foundations and floors.

Cooperatives and private TSO's can play an important role in a program of this sort, because families working in groups, with assistance can usually accomplish more than individuals working alone and unaided.

Cooperatives involve the members in the decision making process, they provide the organizational structure which makes for a well ordered, aided self-help construction program and skills possessed by individuals in the group are employed for the good of all. Furthermore, the provision of training and other forms of assistance such as materials, tools and equipment is simplified.

Cooperatives also provide a useful devise for curbing speculation on land provided by the government. This is particularly true when title to the sites is vested in a cooperative rather than the individual family. The cooperative can assure the members of secure tenure through an "occupancy agreement" but control use, transfer or disposition of the individual sites.

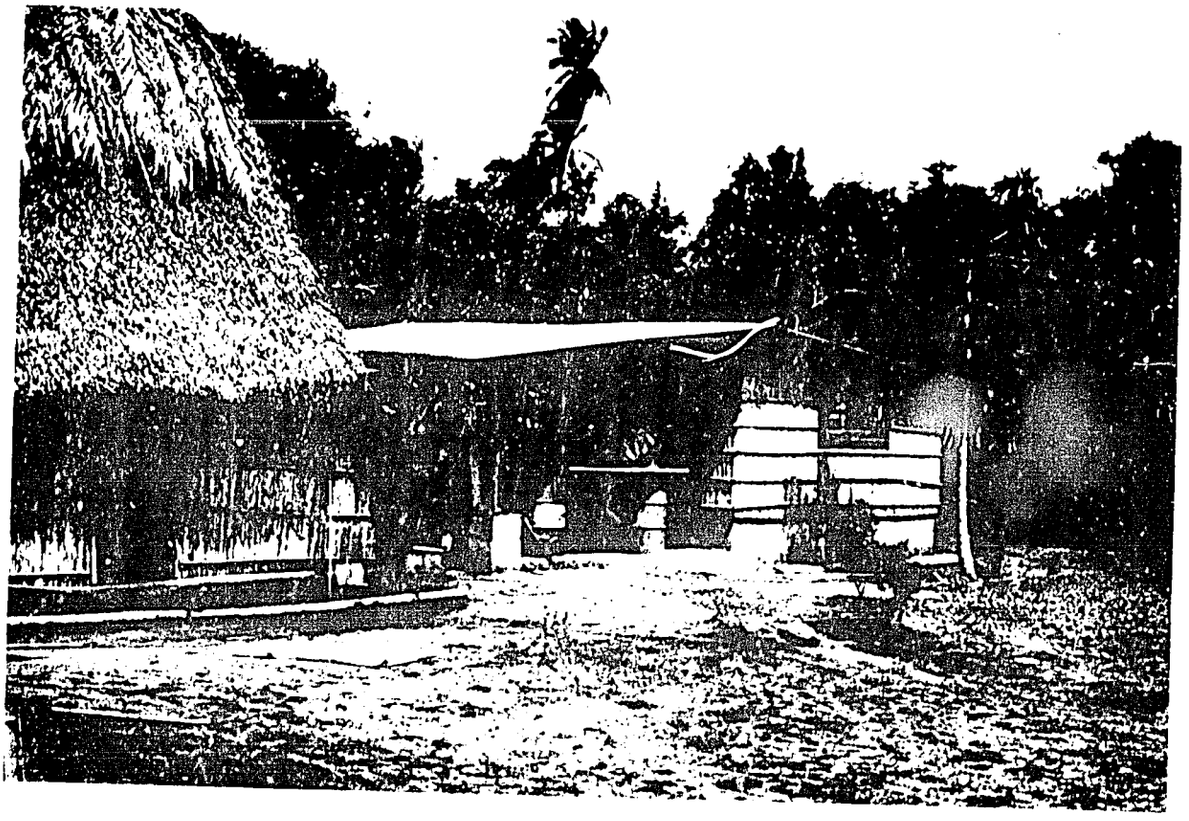
The collection of carrying charges and repayments on small loans can also be handled by the cooperative which can put pressure on the delinquents more readily than the government.

Cooperatives also tend to encourage groups to initiate and carry on other worthwhile community undertakings and develop a sense of group responsibility rarely felt in communities planned and regulated by the government.

Cooperative, aided self help programs have been successful in a number of countries, among them Sweden, Germany, France and the United States.

Panama has one of the most recent cooperative self-help housing programs. Based on experience in the community of Los Pocitos, the program is now being expanded throughout rural Panama under the sponsorship of the Panamanian Foundation for Cooperative Housing (FUNDAVICO), a private non-profit technical service organization. The program is financed with part of the proceeds from a 3.5 million dollar loan from the Agency for International Development and is expected to produce some 1,000 small, low cost rural dwellings costing between $300 and $970. In all cases, self-help labor and native materials provided by the cooperative members represent an important contribution.

In the original Los Pocitos houses, self-help labor and materials accounted for about 27 percent of the total cost. Members also made a $30 down payment (10 percent of the value of purchased materials and skilled labor), leaving a principal amount of $270 to be paid off in 7 years and 7 months with an interest rate of 4½ percent.



A low-cost, three-room rural dwelling replaces a one-room dirt-floored, thatched hut near Los Pocitos, Panama.

The monthly carrying charge of $4.00 included the following payments toward reserves and cooperative operating expenses:

Payment toward principal and interest	$3.50
Payment toward personal delinquency reserves	.25
Payment toward cooperative delinquency reserves	.15
Payment toward cooperative operating expenses	.10
	$4.00

The Los Pocitos project began with 11 houses financed from a seed capital grant of $3,000 from AID plus $300 in down payments. It grew to 30 houses in 6 years without further injection of capital because of a revolving fund established with the initial grant and maintained with the repayments of the members.

In cooperative self-help programs, Technical Service Organizations have an important role to play. In addition to serving as sponsors and organizing the cooperatives, they can relieve the government of carrying on educational programs and providing training and technical assistance. They can also administer loan funds and serve as both a bridge and buffer between the individual families and the government.

New concrete block house built with a combination of skilled and self-help labor in the rural cooperative housing program in Panama.

The following is an outline plan for carrying out an urban improvement program involving sites and services and cooperative aided self-help.

1) An area to be improved or opened to settlement by low-income families would be planned, divided into sections and further sub-divided into homesites. Essential access roads, water lines, and sanitary facilities and electric service would be installed at government expense, utilizing labor from the community when possible.

2) A TSO or other non-profit sponsor would be given the responsibility, under a contract, for helping the occupants of each section to organize into legal cooperatives, each of which would have its own elected board of directors and president to represent them.

3) The land in each section would be sold to the cooperative and covered by a single mortgage. (Where appropriate the land might be leased or given in usufruct to the cooperative).

4) The cooperative would assign plots to the members, and enter into occupancy agreements with each. These agreements would assure each member secure tenure as long as he met the terms of the agreement, including the payment of stipulated carrying charges.

5) The TSO would provide technical assistance and training to the groups formed in the various cooperatives to build or improve dwellings. It would also serve as administrator of a loan fund for the purchase of materials and equipment which would be channeled to members through their cooperative.

6) Each cooperative would receive applications for loans, materials or equipment from its members, approve or reject them and handle the distribution.

7) Each cooperative, with TSO help and supervision, would be responsible for keeping records of disbursements and for collecting repayments from members.

A cooperative program of this type provides continuing organizations capable of initiating and undertaking other important projects such as the construction and maintenance of schools, social centers, parks, playgrounds, child care centers and organization of consumer cooperatives, credit unions, adult education programs, etc.

For example, a substantial proportion of families who are candidates for sites and services projects have very low cash incomes and often lack marketable skills. Small cooperative industries, established in or near such projects can provide employment opportunities and job training.

View of a building materials production center on an urban improvement project in Panama City.

This was done in connection with an urban improvement, sites and services program in Panama where building material production centers were established by the Panamanian Institute of Housing and Urbanism (IVU) and relocation sites in Panama City and Colon. These centers produced such things as concrete block, pre-cast concrete floor slabs for sanitary privies, doors, window frames, etc. Members of the communities were employed in producing the materials and were also given some training in the building trades. The materials were sold primarily to families moving into the community for the construction of their homes.

It was originally intended to convert the centers into private production cooperatives owned by those who worked in them. Although the plan was not carried out, the centers were a major source of the materials used in the projects and a rather large number of men received training in various skills.

APPENDIX I

STEPS IN ORGANIZING A COOPERATIVE

In the preceding chapters, various approaches to the organization, financing and management of cooperative projects have been discussed.

The purpose of this appendix is to summarize the steps usually taken in the United States and followed by many other technical service organizations in carrying out cooperative housing projects. These steps are based on the theory that a professional group is better able to carry a project through to completion than a group of amateurs, however well intentioned.

To avoid the problems usually faced by the members of a cooperative group, the TSO forms a legal cooperative or cooperative corporation with selected trustees serving as sponsors and as the board of directors. These trustees act on behalf of the future members and are responsible for protecting their interests.

After the project has been built and occupied and the resident members have elected their own board of directors, the trustees resign and turn all responsibilities over to the cooperative and its elected board.

These services are performed by the TSO on a non-profit basis for a fee which is paid out of the mortgage proceeds at the initial closing after the project has been successfully organized.

In some developing countries, housing cooperatives must be organized under cooperative laws which require that, in order to obtain legal status, the cooperative member must include a stipulated number of persons who are to be residents of the project and who must sign the constitution or chartering documents. In such cases, to avoid problems, these individuals are encouraged to agree in advance to delegate decisions on technical matters to the TSO and its professional employees.

In any case, the following steps are essential to successfully carrying out a cooperative housing project.

1) Making market analysis (in the absence of identifiable groups) in the area to be served to determine the effective demand, the sizes, types and numbers of dwelling units to be built as well as the income levels of the families as a basis for determining feasible selling prices for the units.
2) Organizing the cooperative and obtaining legal status. This includes forming an interim board of directors to represent the interests of future members.
3) Preparing all necessary legal documents such as the cooperative charter and by-laws, membership and occupancy agreements and the mortgage documents.
4) Selecting and concluding arrangements to purchase suitable land.

5) Obtaining commitments from lenders for construction financing and long term financing.

6) Arranging with an architectural/engineering firm to prepare site plans, design dwellings, prepare contract documents and cost estimates, handle bidding or negotiations with building contractors and supervise construction.

7) Reviewing and approving final plans, specifications and cost estimates.

8) Selecting contractors with advice of A/E firm (either by negotiation or competitive bidding) to construct the project at a stipulated price.

9) Concluding arrangements for financing based on contractor proposals.

10) Establishing firm selling prices for each housing unit based on the construction contract and other pertinent factors.

11) Determining the required monthly payments (carrying charges) for each house or apartment. These include each members share of:

    a) Interest and amortization payments on the mortgage;

    b) Operating Costs;

    c) Cost of maintaining all cooperative property;

    d) Taxes, property insurance and utilities;

    e) Reserves for future repairs and replacements;

    f) Reserves for delinquencies and vacancies;

12) Establishing standards for selecting members.

13) Undertaking sales programs, if necessary, to obtain the required number of members for the projects, and carefully screening applications for membership and establishing their credit worthiness.

14) Organizing savings programs among prospective members to assure that they will have the required down payments by the time the projects are completed.

15) Setting up appropriate safeguards for the members savings or deposits until closing.

16) Arranging for the signing of the construction contract by the Board of Directors.

17) Overseeing the A/E inspection during construction and advising the Board of Directors on accepting the project on behalf of the cooperative.

18) Preparing operating budgets to cover the first year of occupancy.

19) Conducting educational programs for cooperative members prior to, and during the construction period so that they fully understand their privileges and responsibilities.

20) Making arrangements for management of the project after completion. (In some cases the TSO may undertake the management under a contract with the cooperative, or management responsibility may be assumed by the elected board of directors.)

21) Making arrangements to move families into the project or into sections of the project as they are completed.

22) Assisting new members to set up procedures for electing their own Board of Directors.

23) Instructing newly elected Boards of Directors in their duties and responsibilities and helping arrange for orderly transition from the old to the new boards. (This usually takes place six or more months after the project has been completed.)

24) Providing post-occupancy education meetings for new Board and for all cooperative members. This final stage is important. Often it is overlooked because members may feel that after obtaining their housing they need nothing more. But to assure the financial integrity of the cooperative and to maintain the value of the houses and the community, post-occupancy education and membership participation in the activities of the cooperative is essential.

When these steps have been taken by conscious, competent professionals the chances of developing a strong, successful cooperative are good and the likelihood of serious difficulties or of failure are minimized.

APPENDIX II

SAMPLE SUBSCRIPTION AGREEMENT

ABC COOPERATIVE

Application No._____
Dwelling Unit No. _____

Date _____

1. Subscription Amount

I/We_____, a legal resident of the_____, hereinafter called the "Subscriber," in consideration of the mutual promises of other subscribers and other good and valuable considerations, hereby subscribe for membership in ABC Cooperative hereinafter called the "Cooperative" and hereby subscribe for membership in said cooperative having a subscription price of $_____. I/We hereby agree to pay the subscription price as follows:

$_____upon signing this Agreement;

$_____on written demand by the cooperative. (Such demand will constitute notification of Subscriber's acceptability for membership: Provided that, if full payment is made of the subscription price, without a written demand therefor, the Subscriber's acceptability for membership shall not occur until written notification thereof is sent to the Subscriber.)

I/We hereby ratify the provisions contained in the Articles of Incorporation By-Laws, and Occupancy Agreement, copies of which are attached hereto and receipt of which is hereby acknowledged.

2. Priority of Mortage Lien

This Agreement and all rights hereunder are and at all times shall be subject and subordinate to the lien of the mortgage and accompanying documents to be executed by the Cooperative to a lending institution and to be insured under_____of the National Housing Act; and to any and all modifications, extensions, and renewals thereof; and to any mortgage or deed of trust made in place thereof; and to any mortgage or deed of trust which may at any time thereafter be placed on the property of the Cooperative or any part thereof.

3. Occupancy Agreement

The Subscriber, if approved for membership, will be entitled to occupancy of the above numbered dwelling unit under provision of the above mentioned Occupancy Agreement. It is estimated that the initial carrying charge per month for said unit will not exceed $_____, but is is to be emphasized that this is only an estimate, subject to fluctuations as provided for in the Occupancy Agreement. I/We agree to execute the Occupancy Agreement on demand and to comply with all the terms thereof. I/We agree to make a payment hereunder of $_____to be credited to the down payment under the Occupancy Agreement.

4. Cancellation Rights

The Cooperative reserves the right at any time before it has notified the Subscriber of his acceptability for membership, for reasons deemed sufficient by the Cooperative, to return the amount paid by the Subscriber under this Agreement, or in the event the Subscriber shall have died prior to becoming a member, the Cooperative reserves the right to return same to Subscriber's estate or legal representative, and thereupon all rights of the Subscriber shall cease and terminate without further liability on the part of the Cooperative.

It is understood that the Subscriber's credit is subject to approval by the Board of Directors. In the event that the Subscriber does not meet credit and/or income limitation requirements for participation in this project, thereupon, upon return to the Subscriber of the sums paid hereunder, this Agreement shall be deemed null and void and all of the Subscriber's rights shall cease and terminate without further liability on the part of the Cooperative.

If the Subscriber within five (5) days after the execution of this Subscription Agreement notifies the Cooperative in writing that he wishes to withdraw from the Agreement, the amounts theretofore paid by him under this Agreement will be returned to him and thereupon all rights and liabilities of the Subscriber hereunder shall cease and terminate. The right of the Subscriber to so withdraw shall, however, terminate unless exercised within such five (5) day period, except that if membership is not fully achieved and construction of the project has not commenced within one year from the date of execution of this Agreement, Subscriber shall again have the right to withdraw and obtain such refund.

If the Subscriber shall default in any of the obligations called for in this Agreement, and such default shall continue for fifteen (15) days after notice sent by registered mail by the Cooperative to the Subscriber at the address given below, then, forthwith at the option of the Cooperative, the Subscriber shall lose any and all rights under this Agreement, and any amount paid toward the

subscription price may be retained by the Cooperative as liquidated damages, or may at the option of the Cooperative be returned less the Subscriber's proportionate share of expenses incurred by the Cooperative. The Cooperative may, at its option, release the obligations of the Subscriber under this Agreement in the event the Subscriber shall secure an assignee of this Agreement who has assumed the obligations herein contained and is satisfactory to the Cooperative. This Agreement is not otherwise assignable.

5. **Oral Representations Not to be Relied Upon**

This agreement will supersede any prior understandings and agreements and constitutes the entire agreement between us, and no oral representations or statements shall be considered a part hereof.

WITNESS:

_____
Subscriber

_____

_____
Subscriber

_____
Address

_____
Telephone

APPENDIX 3

SAMPLE OCCUPANCY AGREEMENT

ABC COOPERATIVE

THIS AGREEMENT, made and entered this _____ day of _____, 19____, by and between ABC Cooperative _____ (hereinafter referred to as the Cooperative), a cooperative having its principal office and place of business at _____, _____, and _____ (hereinafter referred to as Member);

WHEREAS, the Cooperative has been formed for the purpose of acquiring, owning and operating a cooperative housing project to be located at _____, _____, with the intent that its members shall have the right to occupy the dwelling units thereof under the terms and conditions hereinafter set forth; and

WHEREAS, the Member is the owner and holder of a certificate of membership of the Cooperative and has bona fide intention to reside in the project;

WHEREAS, the Cooperative proposes to develop ABC Cooperative in several sections (all of which sections are hereinafter collectively referred to as the "entire cooperative community"), which will involve a total of approximately _____ dwelling units, with Section One thereof involving _____ of such dwelling units (Section One is hereinafter referred to as the "Project"); and

WHEREAS, the Member has certified to the accuracy of the statements made in his application and family income survey and agrees and understands that family income, family composition and other eligibility requirements are substantial and material requirements of his initial and of his continuing occupancy;

NOW, THEREFORE, in consideration of One Dollar ($1.00) to each of the parties paid by the other party, the receipt of which is hereby acknowledged, and in further consideration of the mutual promises contained herein, the Cooperative hereby lets to the Member, and the Member hereby hires and takes from the Cooperative, dwelling unit number _____, located at _____;

TO HAVE AND TO HOLD said dwelling unit unto the member, his executors, administrators and authorized assigns, on the terms and conditions set forth herein and in the Charter and By-Laws of the Cooperative and any rules and regulations of the Cooperative now or hereafter adopted pursuant thereto, from the date of this agreement, for a term terminating on _____, 19____, renewable for successive three-year periods under the conditions provided for herein.

ARTICLE 1. MONTHLY CARRYING CHARGES AND DOWN PAYMENTS

On or before the date of execution of this Occupancy Agreement the Member has paid to the Cooperative: (1) a down payment in the amount of $_____ (which down payment is referred to in the By-Laws of the Cooperative as the "Value of Occupancy Agreement"); and (2) the subscription price for his membership in the amount of $_____.

Commencing at the time indicated in ARTICLE 2 hereof, the Member agrees to pay to the Cooperative a monthly sum referred to herein as "Carrying Charges", equal to one-twelfth of the Member's proportionate share of the sum required by the Cooperative, as estimated by its Board of Directors to meet its annual expenses, pertaining to the Project and to the community or other facilities which the Member is entitled to utilize including but not limited to the following items:

(a) The cost of all operating expenses of the project and services furnished.

(b) The cost of necessary management and administration.

(c) The amount of all taxes and assessments levied against the project of the Cooperative or which it is required to pay, and ground rent, if any.

(d) The cost of fire and extended coverage insurance on the project and such other insurance as the Cooperative may effect or as may be required by any mortgage on the project.

(e) The cost of furnishing all utilities, if such utilities are furnished by the Cooperative. (See Article 10 for a listing of those utilities which are to be furnished by the Cooperative.)

(f) All reserves set up by the Board of Directors pertaining to the Project.

(g) The estimated cost of repairs, maintenance and replacements of the Project property to be made by the Cooperative.

(h) The amount of principal, interest, and other required payments on the hereinafter-mentioned insured mortgage.

(i) Any other expenses of the Cooperative approved by the Board of Directors including operating deficiencies, if any, for prior periods.

The Board of Directors shall determine the amount of the Carrying Charges annually, but may do so at more frequent intervals, should circumstances so require. No member shall be charged with more than his proportionate share thereof as determined by the Board of Directors. The amount of the Carrying Charges required for payment on the principal of the mortgage of the Cooperative or any other capital expenditures shall be credited upon the books of the Cooperative to the "Paid-In Surplus" account as a capital contribution by the members. Until further notice from the Cooperative, the Monthly Carrying Charges for the above-mentioned dwelling unit shall be $_____.

ARTICLE 2. WHEN PAYMENT OF CARRYING CHARGES TO COMMENCE

After thirty days' notice by the Cooperative to the effect that the dwelling unit is available for occupancy, or upon acceptance of occupancy, whichever is earlier, the Member shall make a payment of Carrying Charges covering the unexpired balance of the month. Thereafter, the Member shall pay Carrying Charges in advance on the first day of each month.

ARTICLE 3. PATRONAGE REFUNDS

The Cooperative agrees on its part that it will refund or credit to the Member within ninety (90) days after the end of each fiscal year, his proportionate share of such sums as have been collected in anticipation of expenses which are in excess of the amounts needed for expenses of all kinds, including reserves, in the discretion of the Board of Directors.

ARTICLE 4. MEMBER'S OPTION TO REVIEW

It is covenanted and agreed that the term herein granted shall be extended and renewed from time to time by and against the parties hereto for further periods of three years each from the expiration of the term herein granted, upon the same covenants and agreements as herein contained unless: (1) notice of the Member's election not to renew shall have been given to the Cooperative in writing at least four months prior to the expiration of the then current term, and (2) the Member shall have on or before the expiration of said term (a) endorsed his membership certificate for transfer in blank and deposited same with the Cooperative, and (b) met all his obligations and paid all amounts due under this agreement up to the time of said expiration, and (c) vacated the premises, leaving same in good state of repair. Upon compliance with provisions (1) and (2) of this Article, the Member shall have no further liability under this agreement and shall be entitled to no payment from the Cooperative.

ARTICLE 5. PREMISES TO BE USED FOR RESIDENTIAL PURPOSES ONLY

The Member shall occupy the dwelling unit covered by this agreement as a private dwelling unit for himself and/or his immediate family and for no other purpose, and may enjoy the use in common with other members of the cooperative of all community property and facilities of the entire cooperative community so long as he continues to own a membership of the Cooperative, occupies his dwelling unit, and abides by the terms of this agreement. Any sublessee of the Member, if approved pursuant to Article 7 hereof, may enjoy the rights to which the Member is entitled under this Article 5.

The Member shall not permit or suffer anything to be done or kept upon said premises which will increase the rate of insurance on the building, or on the contents thereof, or which will obstruct or interfere with the rights of other occupants, or annoy them by unreasonable noises or otherwise, nor will he commit or permit any nuisance on the premises or commit or suffer any immoral or illegal act to be committed thereon. The Member shall comply with all of the requirements of the Board of Health and of all other governmental authorities with respect to the said premises. If by reason of the occupancy or use of said premises by the Member the rate of insurance on the building shall be increased, the Member shall become personally liable for the additional insurance premiums.

ARTICLE 6. MEMBER'S RIGHT TO PEACEABLE POSSESSION

In return for the Member's continued fulfillment of the terms and conditions of this agreement, the Cooperative covenants that the Member may at all times while this agreement remains in effect, have and enjoy for his sole use and benefit the dwelling unit hereinabove describe, after obtaining occupancy, and may enjoy in common with all other members of the Cooperative the use of all community property and facilities of the entire cooperative community.

ARTICLE 7 NO SUBLETTING WITHOUT CONSENT OF COOPERATIVE

The Member hereby agrees not to assign this agreement nor to sublet his dwelling unit without the written consent of the Cooperative. The liability of the Member under this Occupancy Agreement shall continue notwithstanding the fact that he may sublet the dwelling unit with the approval of the Cooperative and the Member shall be responsible to the Cooperative for the conduct of his sublessee. Any unauthorized subleasing shall, at the option of the Cooperative, result in the termination and forfeiture of the Member's rights under this Occupancy Agreement.

ARTICLE 8. TRANSFERS

Neither this agreement nor the Member's right of occupancy shall be transferrable or assignable except in the same manner as may now or hereafter be provided for the transfer of memberships in the By-Laws of the Cooperative.

ARTICLE 9. MANAGEMENT, TAXES AND INSURANCE

The Cooperative shall provide necessary management, operation and administration of the Project; pay or provide for the payment of all taxes or assessments levied against the Project; procure and pay or provide for the payment of fire insurance and extended coverage, and other insurance as required by any mortgage on property in the Project, and such other insurance as the Cooperative may deem advisable on the property in the Project. The Cooperative will not, however, provide insurance on the Member's interest in the dwelling unit or on his personal property.

ARTICLE 10. UTILITIES

The Cooperative shall provide water (hot and cold), gas and space heat in amounts which it deems reasonable. The Member shall pay directly to the supplier for all other utilities.

ARTICLE 11. REPAIRS

(a) *By Member.* The Member agrees to repair and maintain his dwelling unit at his own expense as follows:

(1) Any repairs or maintenance necessitated by his own negligence or misuse;

(2) Any redecoration of his own dwelling unit: and

(3) Any repairs, maintenance or replacements required on items not furnished by the Cooperative.

(b) *By Cooperative.* The Cooperative shall provide and pay for all necessary repairs, maintenance and replacements, except as specified in clause (a) of this Article. The officers and employees of the Cooperative shall have the right to enter the dwelling units of the Member in order to effect necessary repairs, maintenance, and replacements, and to authorize entrance for such purposes by employees of any contractor, utility company, municipal agency, or others, at any reasonable hour of the day and in the event of emergency at any time.

(c) *Right of Cooperative To Make Repairs at Member's Expense.* In Case the Member shall fail to effect the repairs, maintenance or replacements specified in clause (a) of this Article in a

manner satisfactory to the Cooperative and pay same the latter may do so and add the cost thereof to the Member's next month's Carrying Charge payment.

ARTICLE 12. ALTERATIONS AND ADDITIONS

The Member shall not, without the written consent of the Cooperative, make any structural alterations in the premises or in the water, gas or steampipes, electrical conduits, plumbing or other fixtures connected therewith, or remove any additions, improvements, or fixtures from the premises.

If the Member for any reason shall cease to be an occupant of the premises he shall surrender to the Cooperative possession thereof, including any alterations, additions, fixtures and improvements.

The Member shall not, without the prior written consent of the Cooperative, install or use in his dwelling unit any air conditioning equipment, washing machine, clothes dryer, electric heater, or power tools. The Member agrees that the Cooperative may require the prompt removal of any such equipment at any time, and that his failure to remove such equipment upon request shall constitute a default within the meaning of Article 13 of this agreement.

ARTICLE 13. DEFINITION OF DEFAULT BY MEMBER AND EFFECT THEREOF

It is hereby mutually agreed as follows: If at any time after the happening of any of the events specified in clauses (a) to (1) of this Article the Cooperative shall give to the Member a notice that this agreement will expire at a date not less than ten (10) days thereafter, this agreement and all of the Member's rights under this agreement will expire on the date so fixed in such notice, unless in the meantime the default has been cured in a manner deemed satisfactory by the Cooperative, it being the intention of the parties hereto to create hereby conditional limitations, and it shall thereupon be lawful for the Cooperative to re-enter the dwelling unit and to remove all persons and personal property therefrom, either by summary dispossess proceedings or by suitable action or proceeding at law or in equity or by any other proceedings which may apply to the eviction of tenants or by force or otherwise, and to repossess the dwelling unit in its former state as if this agreement had not been made:

(a) In case at any time during the term of this agreement the Member shall cease to be the owner and legal holder of a membership of the Cooperative.

(b) In case the Member attempts to transfer or assign this agreement in a manner inconsistent with the provisions of the By-Laws.

(c) In case at any time during the continuance of this agreement the Member shall be declared a bankrupt under the laws of _____.

(d) In case at any time during the continuance of this agreement a receiver of the Member's property shall be appointed under any of the laws of the _____, _____, _____

(e) In case at any time during the continuance of this agreement the Member shall make a general assignment for the benefit of creditors.

(f) In case at any time during the continuance of this agreement the membership rights of a Member in the Cooperative shall be duly levied upon and sold under the process of any Court.

(g) In case the Member fails to effect and/or pay for repairs and maintenance as provided for in Article 11 thereof.

(h) In case the Member shall fail to pay any sum due pursuant to the provisions of Article 1 or Article 10 thereof.

(i) In case the Member shall default in the performance of any of his obligations under this agreement.

(j) In case the Member shall fail to pay any charge which if not paid, could become a lien against the Project.

The Member hereby expressly waives any and all right of redemption in case he shall be dispossessed by judgment or warrant of any Court of judge; the words "enter", "re-entry", as used in this agreement are not restricted to their technical legal meaning, and in the event of a breach or threatened breach by the Member of any of the covenants or provisions hereof, the Cooperative shall have the right of injunction and the right to invoke any remedy allowed at law or in equity, as if re-entry, summary proceedings, and other remedies were not herein provided for.

The failure on the part of the Cooperative to avail itself of any of the remedies given under this agreement shall not waive nor destroy the right of the Cooperative to avail itself of such remedies for similar or other breaches on the part of the Member.

The Member expressly agrees that there exists under this Occupancy Agreement a landlord-tenant relationship and that in the event of a breach or threatened breach by the Member of any covenant or provision of this Agreement, there shall be available to the Cooperative such legal remedy or remedies as are available to a landlord for the breach or threatened breach under the law by a tenant of any provision of a lease or rental agreement.

ARTICLE 14. MEMBER TO COMPLY WITH ALL COOPERATIVE REGULATIONS

The Member covenants that he will preserve and promote the cooperative ownership principles on which the Cooperative has been founded, abide by the Charter, By-Laws, rules and regulations of the Cooperative and any amendments thereto, and by his acts of cooperation with its other members bring about for himself and his co-members a high standard in home and community conditions. The Cooperative agrees to make its rules and regulations known to the Member by delivery of same to him or by promulgating them in such other manner as to constitute adequate notice. The member hereby ratifies all agreements executed by the Cooperative on or before the date hereof.

ARTICLE 15. EFFECT OF FIRE LOSS ON INTERESTS OF MEMBER

In the event of loss or damage by fire or other casualty to the above-mentioned dwelling unit without the fault or negligence of the Member, the Cooperative shall determine whether to restore the damaged premises and shall further determine, in the event such premises shall not be restored, the amount which shall be paid to the Member to redeem the membership of the Member and to reimburse him for such loss as he may have sustained.

If, under such circumstances, the Cooperative determines to restore the premises, Carrying Charges shall abate wholly or partially as determined by the Cooperative until the premises have

been restored. If on the other hand the Cooperative determines not to restore the premises, the Carrying Charges shall cease from the date of such loss or damage.

ARTICLE 16. INSPECTION OF DWELLING UNIT

The Member agrees that the representatives of any mortgagee holding a mortgage on the property of the Cooperative, the officers and employees of the Cooperative, and with the approval of the Cooperative the employees of any contractor, utility company, municipal agency or others, shall have the right to enter the dwelling unit of the Member and make inspections thereof at any reasonable hour of the day and at any time in the event of an emergency.

ARTICLE 17. SUBORDINATION CLAUSE

The project, of which the above-mentioned dwelling unit is a part, was or is to be constructed by the Cooperative with the assistance of a mortgage loan advanced to the Cooperative by a lending institution. Therefore, it is specifically understood and agreed by the parties hereto that this agreement and all rights, privileges and benefits hereunder are and shall be at all times subject to and subordinate to the lien of a first mortgage and the accompanying documents executed by the Cooperative under date of _____, or to be executed by the Cooperative payable to _____in the principal sum of $_____with interest at _____per centum, and to any and all modifications, extensions and renewals thereof and to any mortgage or deed of trust made in replacement thereof and to any mortgage or deed of trust which may at any time hereafter be placed on the Project or any part thereof. The Member hereby agrees to execute, at the Cooperative's request and expense, any instrument which the Cooperative or any lender may deem necessary or desirable to effect the subordination of this agreement to any such mortgage, or deed of trust, and the Member hereby appoints the Cooperative and each and every officer thereof, and any future officer, his irrevocable attorney-in-fact during the term hereof to execute any such instrument on behalf of the Member. The Member does hereby expressly waive any and all notices of default and notices of foreclosure of said mortgage which may be required by law.

In the event a waiver of such notices is not legally valid, the Member does hereby constitute the Cooperative his agent to receive and accept such notices on the Member's behalf.

ARTICLE 18. LATE CHARGES AND OTHER COSTS IN CASE OF DEFAULT

The Member covenants and agrees that, in addition to the other sums that have become or will become due, pursuant to the terms of this Agreement, the Member shall pay to the Cooperative a late charge in an amount to be determined from time to time by the Board of Directors for each payment of Carrying Charges, or part thereof, more than 10 days in arrears.

If a Member defaults in making a payment of Carrying Charges or in the performance or observance of any provision of this Agreement, and the Cooperative has obtained the services of any attorney with respect to the defaults involved, the Member covenants and agrees to pay to the Cooperative any costs or fees involved, including reasonable attorney's fees, notwithstanding the fact that a suit has not yet been instituted. In case a suit is instituted, the Member shall also pay the costs of the suit, in addition to other aforesaid costs and fees.

ARTICLE 19. NOTICES

Whenever the provisions of law or the By-Laws of the Cooperative or this agreement require notice to be given to either party hereto, any notice by the Cooperative to the Member shall be deemed to have been duly given, and any demand by the Cooperative upon the Member shall be deemed to have been duly made if the same is delivered to the Member at his unit or to the Member's last known address; and any notice or demand by the Member to the Cooperative shall be deemed to have been duly given if delivered to an officer of the Cooperative. Such notice may also be given by depositing same in the mails addressed to the Members as shown in the books of the Cooperative, or to the President of the Cooperative, as the case may be, and the time of mailing shall be deemed to be the time of giving of such notice.

ARTICLE 20. ORAL REPRESENTATION NOT BINDING

No representations other than those contained in this agreement, the Charter and the By-Laws of the Cooperative shall be binding upon the Cooperative.

ARTICLE 21. REMEDIES

The exercise of any of the rights or remedies as herein provided with respect to any default shall not preclude or affect the subsequent exercise of such rights or remedies at different times for different defaults.

The respective rights or remedies, whether provided by this agreement or by law, or available in equity, shall be cumulative and the exercise of any one or more of such rights or remedies shall not preclude or affect the exercise, at the same or at different times, or any other such rights or remedies for the same or different defaults, or for the same or different failures of the Member to perform or observe any provision of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be signed and sealed the day and year first above written.

WITNESS:

ABC COOPERATIVE

_____

By_____(SEAL)

_____

_____

_____

Member

APPENDIX 4

SAMPLE BY-LAWS
of

ABC COOPERATIVE

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- Sec. 2. Application for Membership
- Sec. 3. Subscription Funds
- Sec. 4. Members, Authorized Memberships, and Occupancy Agreements
- Sec. 5. Membership Certificates
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- Sec. 7. Lien
- Sec. 8. Transfer of Membership
  - (a) Death of Member
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ARTICLE I. NAME AND LOCATION OF COOPERATIVE

Section 1. The name of this cooperative is ABC Cooperative. Its principal office is located in the City of _____.

ARTICLE II. PURPOSE

Section 1. The purpose of this Cooperative is to provide its members with housing and community facilities, if any, on a nonprofit basis consonant with the provisions set forth in its Article of Incorporation.

ARTICLE III. MEMBERSHIP

Section 1. *Eligibility.* Any natural person approved by the Board of Directors shall be eligible for membership, provided that he or she executes a Subscription Agreement and Occupancy Agreement in the usual form employed by the Cooperative covering a specified unit in a particular mortgage area of the housing project.

Section 2. *Application for Membership.* Application for membership shall be presented in person on a form prescribed by the Board of Directors, and all such applications shall be acted upon promptly by the Board of Directors.

Section 3. *Subscription Funds.* All subscription funds, including the down payments under the Occupancy Agreements, (except funds required for credit reports) received from applicants prior to the endorsement of the mortgage shall be deposited promptly without deduction in a special account or accounts (savings or checking) of the Cooperative as escrowee or trustee for the Subscribers to Membership, which monies shall not be general corporate funds, but shall be held solely for the benefit of the Subscribers until transferred to the account of the Cooperative as hereinafter provided. Such special account or accounts shall be established with such bank or banks or savings and loan association or associations as may be approved. Such account or accounts may be interest bearing, with the interest earned to be retained and owned by the Cooperative. Such funds shall be subject to withdrawal, or transfer to the account of the Cooperative or disbursed in a manner directed by the Cooperative only upon certification (which certification shall appear on the face of any check, if such funds have been deposited in a checking account) by the President or Vice President and Secretary or any Assistant Secretary of the Cooperative to the above-mentioned institution or institutions that:

(a) The Subscription Agreement of a named applicant has been terminated pursuant to its terms and such withdrawal is required to repay the amount paid by him under such agreement; or

(b) Applicants for at least 90% of the dwelling units to be covered by the mortgage have not been procured and such withdrawal is required to repay to the applicants the amount paid by them; or

(c) Applicants for at least 90% of the dwelling units to be covered by the mortgage have signed Subscription Agreements, have been approved as to their credit, and have paid the

subscription price in full. If these requirements have been met and the mortgage loan has been scheduled for closing, the entire amount of the funds in the subscription escrow account may be transferred to the Cooperative, at which time the Cooperative shall issue and deliver membership certificate to all members.

If more than one mortgage is to be executed by the Cooperative, this section shall be deemed to be applicable to the specific subscription fund received from applicants with respect to the specific dwelling units to be covered by each mortgage and to require the creation of separate and specific escrow accounts with respect to each mortgage.

Section 4. *Members, Authorized Memberships, and Occupancy Agreements*

(a) The members shall consist of all individuals comprising the first Board of Directors, as identified in the Articles of Incorporation, or their successors and such subscribers as have been approved for membership by the Board of Directors and who have paid for their membership and received membership certificates. The status of the Directors named in the Articles of Incorporation (or their successors elected by them) as members shall terminate at the first annual membership meeting, unless they have executed Subscription Agreements and, where required, Occupancy Agreements.

(b) The authorized membership of the Cooperative shall consist of_____memberships, all of one class, with a par value of $_____each.

(c) The Cooperative will offer Occupancy Agreements on the dwellings in the housing project, which Occupancy Agreements shall all be of one class. The down payment under an Occupancy Agreement (which downpayment is hereinafter sometimes referred to as "Value of Occupancy Agreement") shall be in the amount established by the Cooperative to be paid by the first occupant of the unit involved as shown on the books of the Cooperative.

Section 5. *Membership Certificates.* Each membership certificate shall state that the Cooperative is organized under the laws of the_____the name of the registered holder of the membership represented hereby, the Cooperative lien rights as against such membership as set forth in this Article, and the preferences and restrictions applicable thereto, and shall be in such form as shall be approved by the Board of Directors. Membership certificates shall be consecutively numbered, bound in one or more books, and shall be issued therefrom upon certification as to full payment. Every membership certificate shall be signed by the President or Vice President, and the Secretary or Assistant Secretary, and shall be sealed with the corporate seal.

Section 6. *Lost Certificate.* The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates previously issued by the Cooperative and alleged to have been destroyed or lost, upon the making of an affidavit of that fact by the person claiming the certificate to be lost or destroyed. When authorizing such issuance of a new certificate or certificates, the Board of Directors may, in its discretion, and as a condition precedent to the issuance thereof, require the registered owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as the Board of Directors shall require and to give the Cooperative a bond in such sum as the Board of Directors may require as indemnity against any claim that may be made against the Cooperative.

Section 7. *Lien.* The Cooperative shall have a lien on the outstanding regular memberships in order to secure payment of any sums which shall be due or become due from the holders thereof for any reason whatsoever, including any sums due under any occupancy agreements.

Section 8. *Transfer of Membership.* Except as provided herein, membership shall not be transferable and, in any event, no transfer of membership shall be made upon the books of the Cooperative within ten (10) days next preceding the annual meeting of the members.

(a) *Death of Member.* If, upon death of a member, his membership in the Cooperative passes by will or intestate distribution to a member of his immediate family, such legatee or distributee may, be assuming in writing the terms of the Subscription Agreement and Occupancy Agreement, where required by the Administration, within sixty (60) days after member's death, and paying all amounts due thereunder, become a member of the Cooperative. If member dies and an obligation is not assumed in accordance with the foregoing, then the Cooperative shall have an option to purchase the membership from the deceased member's estate in the manner provided in paragraph (b) of this Section, written notice of the death being equivalent to notice of intention to withdraw. If the Cooperative does not exercise such option, the provisions of paragraph (c) of this Section shall be applicable, the references to "member" therein to be construed as references to the legal representative of the deceased member.

(b) *Option of Cooperative to Purchase.* If the member desires to leave the project, he shall notify the Cooperative in writing of such intention and the Cooperative shall have an option for a period of thirty (30) days hereafter, but not the obligation to purchase the membership, together with all of the member's rights with respect to the dwelling unit, at an amount to be determined by the Cooperative as representing the transfer value thereof, less any amounts due by the member to the Cooperative under the Occupancy Agreement, and less the cost or estimated cost of all deferred maintenance, including painting, redecorating, floor finishing, and such repairs and replacements as are deemed necessary by the Cooperative to place the dwelling unit in suitable condition for another occupant. The purchase by the cooperative of the membership will immediately terminate the member's rights and the member shall forthwith vacate the premises.

(c) *Procedure Where Cooperative Does Not Exercise Option.* If the Cooperative waives in writing its right to purchase the membership under the foregoing option, or if the Cooperative fails to exercise such option within the thirty (30) day period, the member may sell his membership to any person who has been duly approved by the Cooperative as a member and occupant. If the Cooperative agrees, at the request of the member, to assist the member in finding a purchaser, the Cooperative shall be entitled to charge the member a fee it deems reasonable for this service. When the transferee has been approved for membership and has executed the prescribed Occupancy Agreement, the retiring member shall be released of his obligations under his Occupancy Agreement, provided he has paid all amounts due the Cooperative to date.

(d) *Transfer Value.* Whenever the Board of Directors elects to purchase a membership, the term "transfer value" shall mean the sum of the following:

(1) The consideration (i.e. down payment) paid for the membership by the first occupant of the unit involved as shown on the books of the Cooperative; plus

(2) The Value of Occupancy Agreement; plus

(3) The value, as determined by the Directors, of any improvements installed at the expense of the member with the prior approval of the Directors, under a valuation formula which does not provide for reimbursement in an amount in excess of the typical cost of the improvements; plus

(4) The amount computed in accordance with the following table of increases applicable to the membership and to the Occupancy Agreement appurtenant to such membership. Such increase is shown for each full year commencing after the Cooperative has made its first principal payment on the applicable section mortgage as follows:

Membership and Designation of Occupancy Agreement and Unit	Increase Per Year from the 1st Through 3rd Year	Increase Per Year from the 4th Through 20th Year	Increase Per Year from the 21st Through 40th Year
J	NONE	$115	$170
B		137	200
C		140	210
G		142	212
E		157	235
D		167	250

Section 9. *Termination of Membership for Cause.* In the event the Cooperative has terminated the rights of a member under the Occupancy Agreement, the member shall be required to deliver promptly to the Cooperative his membership certificate and his Occupancy Agreement, both endorsed in such manner as may be required by the Cooperative. The Cooperative shall thereupon at its election either (1) repurchase said membership at its transfer value (as hereinabove defined) or the amount the retiring member orginally paid for the acquisition of his membership certificate, whichever is the lesser, or (2) proceed with reasonable diligence to effect a sale of the membership to a purchaser, and at a sales price acceptable to the Cooperative. The retiring member shall be entitled to receive the amount so determined, less the following amounts (the determination of such amounts by the Cooperative to be conclusive):

(a) any amounts due to the Cooperative from the member under the Occupancy Agreement;

(b) the cost or estimated cost of all deferred maintenance, including painting, redecorating, floor finishing, and such repairs and replacements as are deemed necessary by the Cooperative to place the dwelling unit in suitable condition for another occupant; and

(c) legal and other expenses incurred by the Cooperative in connection with the default or such member and the resale of his membership. In the event the retiring member for any reason should fail for a period of 10 days after demand to deliver to the Cooperative his endorsed membership certificate, said membership certificate shall forthwith be deemed to be cancelled and may be reissued by the Cooperative to a new purchaser.

Section 10. *Sales Price.* Memberships may be sold by the Cooperative or the member only to a person approved by the Board of Directors in accordance with the requirements of the Regulatory Agreement, and the sales price shall not exceed the transfer value as provided in this Article, except that in sales effected by the Cooperative a service charge not in excess of $100 may be charged by the Cooperative. Where the sale is accomplished by a member, a certificate as to the price paid shall be executed by the seller and purchaser and delivered to the Cooperative.

ARTICLE IV. MEETINGS OF MEMBERS

Section 1. *Place of Meetings.* Meetings of the membership shall be held at the principal office or place of business of the Cooperative or at such other suitable place convenient to the membership as may be designated by the Board of Directors.

Section 2. *Annual Meetings.* The first annual meeting of the Cooperative shall be held within 60 days after the project is occupied (or such later date as may be established by resolution of the Board of Directors of the Cooperative). Thereafter the annual meeting of the Cooperative shall be held on the of of each succeeding year. At such meeting there shall be elected by ballot of the members a Board of Directors in accordance with the requirements of Section 3 of Article V of these By-Laws. The members may also transact such other business of the Cooperative as may properly come before them.

Section 3. *Special Meetings.* It shall be the duty of the President to call a special meeting of the members as directed by resolution of the Board of Directors or upon a petition signed by twenty (20) percent of the members having been presented to the Secretary. The notice of any special meeting shall state the time and place of such meeting and the purpose thereof. No business shall be transacted at a special meeting except as stated in the notice unless by consent of four-fifths of the members present, either in person or by proxy. Special meetings may not be called by the members until a time subsequent to the date of the first annual meeting except as directed by resolution of the Board of Directors.

Section 4. *Notice of Meetings.* It shall be the duty of the Secretary to mail a notice of each annual or special meeting, stating the purpose thereof as well as the time and place where it is to be held, to each member of record, at his address as it appears on the membership book of the Cooperative, or if no such address appears, at his last known place of address, at least (10) but not more than sixty (60) days prior to such meeting. Service may also be accomplished by the delivery of any such notice to the member at his dwelling unit or last known address.

Section 5. *Quorum.* The presence, either in person or by proxy, of at least fifteen (15) percent of the members of record of the Cooperative shall be requisite for, and shall constitute a quorum for the transaction of business at all meetings of members. If the members at a meeting drop below the quorum and the question of a lack of quorum is raised, no business may thereafter be transacted.

Section 6. *Adjourned Meetings.* If any meeting of members cannot be organized because a quorum has not attended, or a meeting has been ended because the number of members at said meeting has dropped below the quorum, the members who are present, either in person or by proxy, may, except as otherwise provided by law, adjourn the meeting to a time not less than forty-eight (48) hours from the time the original meeting was called, at which subsequent meeting the quorum requirement shall be ten (10) percent.

Section 7. *Voting.* At every meeting of the regular members, each member present, either in person or by proxy, shall have the right to cast one vote on each question and never more than one vote. The vote of the majority of those persent, in person or by proxy, shall decide any question brought before such meeting, unless the question is one upon which, by express provision of statute or of the Articles of Incorporation or of these By-Laws, a different vote is required, in which case such express provision shall govern and control. No member shall be eligible to vote or to be elected to the Board of Directors who is shown on the books or management accounts of the Cooperative to be more than 30 days delinquent in payments due the Cooperative under his Occupancy Agreement.

Section 8. *Proxies.* A member may appoint as his proxy only a member of his immediate family (as defined by the Board of Directors) except that an unmarried member may appoint any other member as his proxy. In no case may a member cast more than one vote by proxy in addition to his own vote. Any proxy must be filed with the Secretary before the appointed time of each meeting.

Section 9. *Order of Business.* The order of business at all regularly scheduled meetings of the regular members shall be as follows:

(a) Roll call.

(b) Proof of notice of meeting or waiver of notice.

(c) Reading of minutes of preceding meeting.

(d) Reports of officers.

(e) Reports of committees.

(f) Report of manager or managing agent.

(g) Election of inspectors of election.

(h) Election of Directors.

(i) Unfinished business.

(j) New business.

In the case of special meetings, items (a) through (d) shall be applicable and thereafter the agenda shall consist of the items specified in the notice of meeting.

ARTICLE V. DIRECTORS

Section 1. *Number and qualification.* The affairs of the Cooperative shall be governed by a Board of Directors composed of five (5) persons, a majority of whom shall be members of the Cooperative.

Section 2. *Powers and Duties.* The Board of Directors shall have all the powers and duties necessary for the administration of the affairs of the Cooperative and may do all such acts and things as are not by law or by these By-Laws directed to be exercised and done by the members. The powers of the Board of Directors shall include but not be limited:

(a) To accept or reject all applications for membership and admission to occupancy of a dwelling unit in the cooperative housing project, either directly or through an authorized representative;

(b) To establish monthly carrying charges as provided for in the Occupancy Agreement, based on an operating budget formally adopted by such Board;

(c) To engage an agent or employees for the management of the project under such terms as the Board may determine;

(d) To authorize in their discretion patronage refunds from residual receipts when and as reflected in the annual report;

(e) To terminate membership and occupancy rights for cause;

(f) To promulgate such rules and regulations pertaining to use and occupancy of the premises as may be deemed proper and which are consistent with these By-Laws, and the Articles of Incorporation.

Section 3. *Election and Term of Office.* The term of the Directors named in the Articles of Incorporation shall expire when their successors have been elected at the first annual meeting or any special meeting called for that purpose; Provided, that any such special meeting to be held prior to the first annual meeting shall be called only as directed by resolution of the Board of Directors. At the first annual meeting of the members the term of office of two Directors shall be fixed for three (3) years. The term of office of two Directors shall be fixed at two (2) years, and the term of office of one Director shall be fixed at one (1) year. At the expiration of the initial term of office of each respective Director, his successor shall be elected to serve a term of three (3) years. The Directors shall hold office until their successors have been elected and hold their first meeting.

Section 4. *Vacancies.* Vacancies in the Board of Directors caused by any reason other than the removal of a Director by a vote of the membership shall be filled by vote of the majority of the remaining Directors, even though they may constitute less than a quorum; and each person so elected shall be a Director until a successor is elected by the members at the next annual meeting to serve out the unexpired portion of the term.

Section 5. *Removal of Directors.* At any regular or special meeting duly called, any Director elected by the members may be removed with or without cause by the affirmative vote of the majority of the entire regular membership of record and a successor may then and there be elected

to fill vacancy thus created. Any Director whose removal has been proposed by the members shall be given an opportunity to be heard at the meeting. The term of any Director who becomes more than 30 days delinquent in payment of his carrying charges shall be automatically terminated and the remaining Directors shall appoint his successor as provided in Section 4, above.

Section 6. *Compensation.* No compensation shall be paid to Directors for their services as Directors. No remuneration shall be paid to a Director for services performed by him for the Cooperative in any other capacity, unless a resolution authorizing such remuneration shall be unanimously adopted by the Board of Directors before the services are undertaken. A Director may not be an employee of the Cooperative.

Section 7. *Organization Meeting.* The first meeting of a newly elected Board of Directors shall be held within ten (10) days of election at such place as shall be fixed by the Directors at the meeting at which such Directors were elected, and no notice shall be necessary to the newly elected Directors in order legally to constitute such meeting, providing a majority of the whole Board shall be present.

Section 8. *Regular Meetings.* Regular meetings of the Board of Directors may be held at such time and place as shall be determined, from time to time, by a majority of the Directors, but at least four such meetings shall be held during each fiscal year. Notice of regular meetings of the Board of Directors shall be given to each Director, personally or by mail, telephone or telegraph, at least three (3) days prior to the day named for such meetings.

Section 9. *Special Meetings.* Special meetings of the Board of Directors may be called by the President on three days notice to each Director, given personally or by mail, telephone or telegraph, which notice shall state the time, place (as hereinabove provided) and purpose of the meeting. Special meetings of the Board of Directors shall be called by the President or Secretary in like manner and on like notice on the written request of at least three Directors.

Section 10. *Waiver of Notice.* Before or at any meeting of the Board of Directors, any Director may, in writing, waive notice of such meeting and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a Director at any meeting of the Board shall be a waiver of notice by him of the time and place thereof. If all the Directors are present at any meeting of the Board, no notice shall be required and any business may be transacted at such meeting. Where all of the Directors unanimously approve and sign a cooperative resolution or authorization (which is to be included in the minute book), this shall be recognized as proper cooperative action taken at a duly authorized meeting, without proceeding under the provisions hereof that would otherwise be applicable for calling and holding Directors meetings.

Section 11. *Quorum.* At all meetings of the Board of Directors, a majority of the Directors shall constitute a quorum for the transaction of business, and the acts of the majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. If, at any meeting of the Board of Directors, there be less than a quorum present, the majority of those present may adjourn the meeting from time to time. At any such adjourned meeting, any business which might have been transacted at the meeting as originally called may be transacted without further notice.

Section 12. *Fidelity Bonds.* The Board of Directors shall require that all officers and employees of the Cooperative handling or responsible for cooperative or trust funds shall furnish adequate fidelity bonds. The premiums on such bonds shall be paid by the Cooperative.

Section 13. *Safeguarding Subscription Funds.* It shall be the duty of the Board of Directors to see to it that all sums received in connection with membership subscription prior to the closing of the mortgage transaction covering the housing project of the Cooperative are deposited and withdrawn only in the manner provided for in Article III, Section 3 of these By-Laws.

ARTICLE VI. OFFICERS

Section 1. *Designation.* The principal officers of the Cooperative shall be a President, one or more Vice Presidents, a Secretary, and a Treasurer, all of whom shall be elected by and from the Board of Directors. The Directors may appoint assistant treasurers and assistant secretaries, and such other officers as in their judgement may be necessary.

Section 2. *Election of Officers.* The officers of the Cooperative shall be elected annually by the Board of Directors at the organization meeting of each new Board and shall hold office at the pleasure of the Board.

Section 3. *Removal of Officers.* Upon an affirmative vote of a majority of the members of the Board of Directors, any officer may be removed, either with or without cause, and his successor elected at any regular meeting of the Board of Directors, or at any special meeting of the Board called for such purpose.

Section 4. *President.* The President shall be the chief executive officer of the Cooperative. He shall preside at all meetings of the members and of the Board of Directors. He shall have all the general powers and duties which are usually vested in the office of president of a cooperative, including but not limited to the power to appoint committees from among the membership from time to time as he may in his discretion decide is appropriate to assist in the conduct of the affairs of the Cooperative.

Section 5. *Vice President.* The Vice President shall take the place of the President and perform his duties whenever the President shall be absent or unable to act. If neither the President nor the Vice President is able to act, the Board of Directors shall appoint some other member of the Board to do so on an interim basis. The Vice President shall also perform such other duties as shall from time to time be imposed upon him by the Board of Directors.

Section 6. *Secretary.* The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the members of the Cooperative; he shall have the custody of the seal of the Cooperative; he shall have charge of the membership transfer books and of such other books and papers as the Board of Directors may direct; and he shall, in general, perform all the duties incident to the office of secretary.

Section 7. *Treasurer.* The Treasurer shall have responsibility for cooperative funds and securities and shall be responsible for keeping full and accurate accounts of all receipts and disbursements in books belonging to the Cooperative. He shall be responsible for the deposit of all

moneys and other valuable effects in the name, and to the credit, of the Cooperative in such depositaries as may from time to time be designated by the Board of Directors.

ARTICLE VII. AMENDMENTS

These By-Laws may be amended by the affirmative vote of the majority of the entire regular membership of record at any regular or special meeting. Amendments may be proposed by the Board of Directors or by petition signed by at least twenty (20) percent of the members. A description of any proposed amendment shall accompany the notice of any regular or special meeting at which such proposed amendment is to be voted upon.

ARTICLE VIII. CORPORATE SEAL

The Board of Directors shall provide a suitable corporate seal containing the name of the Cooperative, which seal shall be in charge of the Secretary. If so directed by the Board of Directors, a duplicate of the seal may be kept and used by the Treasurer or any assistant secretary or assistant treasurer.

ARTICLE IX. FISCAL MANAGEMENT

Section 1. *Fiscal Year.* The fiscal year of the Cooperative shall begin on the_____day of_____of each year, except the first fiscal year of the Cooperative shall begin at the date of incorporation. The commencement date of the fiscal year herein established shall be subject to change by the Board of Directors should cooperative practice subsequently dictate.

Section 2. *Books and Accounts.* Books and accounts of the Cooperative shall be kept under the direction of the Treasurer. That amount of the carrying charges required for payment on the principal of the mortgage of the Cooperative or any other capital expenditures shall be credited upon the books of the Cooperative to the "Paid-In-Surplus" account as a capital contribution by the members.

Section 3. *Auditing.* At the closing of each fiscal year, the books and records of the Cooperative shall be audited by a Certified Public Accountant. Based on such reports, the Cooperative will furnish its members with an annual financial statement including the income and disbursements of the Cooperative. The Cooperative will also supply the members, as soon as practicable after the end of each calendar year, with a statement showing each member's pro rata share of the real estate taxes and mortgage interest paid by the Cooperative during the preceding calendar year.

Section 4. *Inspection of Books.* Financial reports and the membership records of the Cooperative shall be available at the principal office of the Cooperative for inspection at reasonable times by any member.

Section 5. *Execution of Cooperative Documents.* With the prior authorization of the Board of Directors, all notes and contracts, including Occupancy Agreements, shall be executed on behalf of

the Cooperative by any officer of the Cooperative, and all checks shall be executed on behalf of the Cooperative by any two officers of the Cooperative.

Section 6. *Association with Other Cooperatives.* The Cooperative may become a member of an association of cooperatives who join together for purposes of mutual aid and of advancing the cooperative movement as a means of providing housing for consumers.

APPENDIX 5

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